

**CHARLES UNIVERSITY IN PRAGUE
FACULTY OF SOCIAL SCIENCES
INTERNATIONAL ECONOMIC AND
POLITICAL STUDIES**

MASTER'S THESIS

**Political and economic market in Belarus:
a social choice analysis.**

Author	Yauheniya Murjykneli
Subject:	IEPS
Academic Year:	2012/2013
Supervisor:	prof. RNDr. Ing. František Turnovec CSc.
Date Submitted:	14.05.2013

Declaration of Authorship

The author hereby declares that she has compiled this thesis independently, using only the listed resources and literature and that this thesis has not been used to obtain a different or the same degree.

Prague, May 14, 2013

Signature

Acknowledgements

Hereby I would like to thank my supervisor, prof. RNDr. Ing. František Turnovec CSc. , for his reasonable recommendations and support throughout writing this thesis.

Additionally, I would like to thank my parents for their support and love devoted to me.

Furthermore, I would like to express the gratitude to my husband, Aliaksandr Ruban, who was very patient and helpful during the composition of this Thesis.



Master Thesis Proposal

Institute of Economic Studies

Faculty of Social Sciences

Charles University in Prague

Date: 03.06.2012

Author:	Yauheniya Murjykneli	Supervisor:	prof. RNDr. Ing. František Turnovec CSc.
E-mail:	murdzhik@gmail.com	E-mail:	frantisek.turnovec@tiscali.cz
Phone:	+420774571736	Phone:	—
Specialisation:	IEPS	Defense Planned:	June 2013

Proposed Topic:

Political and economic market in Belarus: a social choice analysis.

Registered in SIS: No Date of registration: 08.06.2012

Topic Characteristics:

A lot of things depend on a right choice of a person, but also of the choice of the whole states. And factors determining this or that choice in each concrete situation, sometimes determine even more things.

The economic theory recognizes that dominating tendency of behavior of people within the process of choice is rationality. Any individual estimates alternatives available and according his preferences they choose the alternative, which is available to bring them more utility. In the market of the private goods the individual expresses their preferences in the form of purchasing, acquisitions, and therefore acts as a buyer. The situation is more complicated with the public goods: the goods or services that are not sold in the market. In this case the individual resorts for realization of the preferences to the help of the democratic state, the person represents their selves as a voter. The individual then uses not money, but the voting power.

The treatment of politics as exchange is of great importance for development of the applied theory of economic policy. The theoretical model of behavior of individuals in the political market has received the name of the theory of public choice and is widely adopted in the West countries as this model can be easily confirmed.

However if tendencies that dominate in economic policy of Belarus are analyzed and compared to theoretical postulates of the theory of public choice - will the given theory be applicable to the economic and political reality of Belarus?

Every democratic country has its own social structure, which is incorporated by the Constitution, codes, or a different set of laws and regulations. They make it able to build all official, social, economic, legal and political structure of society. This structure allows to simultaneously ensure the equal rights of citizens, economic prosperity, economic and political freedom and fulfillment of constitutional rights. But what happens when any of those prerequisites are not respected? Belarus is a fine example of the country called "democratic" in which this structure, which allows free choice, is broken.

Working hypothesis and research questions:

- 1) A vital part of political and economic system of Belarus, e.g. behavior of voters, politicians and the officials acting in the political market, processes of elections do not afford Belarus to reach the level of welfare equal to the East member States of EU (e.g. Lithuania).
- 2) What are the similarities and differences of the Belarusian economic system compared to group of East European member states of EU and to its post soviet neighbors (e.g. Russia, Ukraine)?
- 3) Does Belarus fulfill the conditions for entry to European Union?
- 4) Which measures can potentially help to fulfill those conditions?

Methodology:

During the composition of the Thesis following methods will be used: qualitative psychological research, analysis of economic figures and data, survey research: use of surveys, opinion polls; defining of publication bias. For data processing econometric models, graph analysis, etc. - will be used.

For analysis carrying out in a practical part various sources of static data will be used – economic figures: GDP per capita, government spending, inflation, purchasing power parity, tax burden, unemployment, etc.), social data: amount of social transfers from government, level of education, average number of children, age and sex structure of population, etc., investment climate data, data of approval of the ruling power, electoral statistics data etc.

Main sources of data are official resources, such as National Statistical Committee of the Republic of Belarus, World Bank or CIA World Factbook, results of sociological polls of the population of Belarus, various publications of the Belarusian and foreign printing editions, official interviews of the EU authorities.

Outline:

Work consists of five chapters, first of which will describe the theory, that applies to Belarusian reality.

The second goes deeper into description of Belarusian's society structure in order to get deeper into understanding of the following problems.

In the third chapter the detailed theoretical description of the political system of Belarus would be present – the structure, that it was supposed to be..

The applicability of some parts of collective choice theory to a situation in Belarus and comparison with its west EU members (Lithuania, Latvia) and east neighbors (Russia, Ukraine) are analyzed in the fourth part.

Fifth concentrates on the situation with human rights in Belarus, and possible ways out of the difficult situation.

Expected results:

Comparative position of Belarus in the group of East European countries and post soviet countries by a number of possible criteria:

1. Economy - Stable economy: increase per capita income, GDP per capita, inflation, strength of national currency, promotion of the overall wellbeing of its citizens.
2. Entrepreneurship & Opportunity (E&O) - A strong entrepreneurial climate in which citizens can pursue new ideas and opportunities for improving their lives leads to higher levels of income and wellbeing.
3. Governance – level of satisfaction of the population with the government's actions reflects the attitude of the population to ruling power.
4. Education - Education is a base for prosperous societies.
5. Health - A strong healthcare infrastructure in which citizens are able to enjoy good physical and mental health leads to higher levels of income and wellbeing.
6. Safety & Security - Societies plagued by threats to national security and personal safety cannot foster growth in average levels of income or welfare.
7. Personal Freedom – Possibility of the citizens to enjoy their rights to expression, belief, and personal autonomy in a society welcoming of diversity, which usually leads to higher levels of income and social wellbeing.
8. Social Capital – the level of development of social networks, when people trust one another, usually have a direct effect on the prosperity of a country.

References / Bibliography:

- 1) The republican budget for 2011. The law of Belarus dated October, 15th, 2010 № 176/<http://www.newsby.org/by/2010/10/19/text16710.htm>.
- 2) Buchanan. J. Freedom borders / Compositions. The English Series: "the Nobel winners in economy". T.1./Fund of the economic initiative; Nureev R. M and

- others / M.Taurus the Alpha, 1997. – 478pp.
- 3) Vanberg B «the order Theory» and the constitutional economy / economy Questions, 1995. №12. pp. 67-72.
 - 4) Nureev R.M. Theory of public choice. A course of lectures / M: HSE, 2005.– 530pp.
 - 5) Olson M. Logic of collective actions. The public benefits and the theory of groups/lanes with English under the editorship of R.M.Nureev. M: fund of the economic initiative, 1995. – 325pp.
 - 6) Stiglitz of J. J. Economics of public sector / M: INFRA TH, 1997. – 720pp.
 - 7) K. Arrow. Collective choice and individual values / M: HSE, 2004. – 204pp.
 - 8) Yakobson L. Economy of public sector: basics of the theory of public finance / M: the Science, 1995. – 276pp.
 - 9) Analytical bulletin «Elections of deputies of local Councils of deputies of Belarus 2010»
[//http://zapraudu.info/sites/default/files/imce_images/Analytical_bulletin_2010](http://zapraudu.info/sites/default/files/imce_images/Analytical_bulletin_2010).
 - 10) Constitution of Belarus // <http://www.belarus.net/conendru.htm> .
 - 11) Data of the Special project of the Belarusian informational company//<http://belapan.com/archive/2009/12/14/409569/>.
 - 12) Data of the National Statistical Committee of the Republic of Belarus // <http://belstat.gov.by/homep/en/main.html>
 - 13) The 2011 Legatum Prosperity Index // <http://www.prosperity.com/default.aspx>
 - 14) Lemie P. Revolutionary theory of public choice
[//http://www.inliberty.ru/library/study/1481/](http://www.inliberty.ru/library/study/1481/).
 - 15) National Bank has printed trillion rubles//
<http://news.21.by/economics/2011/05/14/301588.html>
 - 16) Romanchuk I. Presidential elections in Belarus of 2010. Campaign. Results. Consequences.//<<http://finance.tut.by/opinions/romanchuk/397/>>

.....

Author

.....

Supervisor

DECLARATION:

I hereby declare that this thesis is my own work, based on the sources and literature listed in the appended bibliography. The thesis as submitted is 130903 keystrokes long (including spaces), i.e. 73 manuscript pages.

Yauheniya Murjykneli

14.05.2013

Contents

List of Abbreviations.....	10
Introduction	11
Chapter 1. Theoretical background.	14
1.1. Three pillars of Transition.....	14
1.2. Bureaucracy.....	18
Chapter 2. Fundamental legislation.....	23
2.1. Constitution of the Republic of Belarus. Basic facts.	23
2.2. Branches of Power.	25
2.3. Election process.....	28
Chapter 3. Structure and quality of the society.	32
3.1. Structure of the population.....	32
3.2. Human Development index and income measure of the society.	35
3.3. Quantitative measure of different factors' impact on the living standards of the society.	39
3.4. Political activity of the society.	43
Chapter 4. Economics of Belarus and its comparison to the neighbors: Ukraine, Poland, Lithuania.....	47
4.1. Basic facts.	47
4.2. Customs Union with Russia and Kazakhstan.....	52
4.2.1. Basic facts and history.....	52
4.2.2. How does the Customs Union function?	54
4.3. Comparison of economic development of Belarus to neighbor states.	58
4.4. Conclusions	61
Chapter 5. Is Belarus ready to enter the EU?	63
Conclusions	69
Abstract	72
Bibliography:.....	73
Supplement 1	77
Supplement 2	80
Supplement 3.....	81
Supplement 4.....	82
Supplement 5.....	83
Supplement 6.....	85

List of Abbreviations

CES – Common Economic Space
CIS – Commonwealth of Independent States
CU – Customs Union
EEA – European Economic Area
EEU – Eurasian Economic Union
E&O – Entrepreneurship and Opportunity
GNI – Gross National Income
HDI – Human Development Index
R&D – Research and Development
SOE – State-Owned Enterprises
TFP - Total Factor Productivity

Key words: Belarus, Constitution, property, Parties, democracy, elections, public choice, opposition, sanctions, EU, customs union, comparison, HDI, education, R&D, investment climate, political power, Parliament, Parties.

Introduction

Each country has its own way, the story of the events of life of people, wars, economic and social development. This path may be predominantly peaceful or military, though at any given moment it is important to be aware of where the country is going, where it is in its development, and whether it could achieve better results or not. And if it could then define what exactly prevents to achieve this goal. Such an analysis must be conducted in public institutions for the formation of economic programs, fiscal and monetary policies.

Belarus also has its own way to the position it occupies in the current moment on the world stage - the most famous landmarks of the Belarusian history is being a part of the Soviet Union, and now for about 20 years already, the country operates as an independent state.

What is the success of transition of the country from socialism to functioning market economy? As will be seen from the follow-up of the work this transition is not higher than satisfactory, especially when compared with the countries of the former Soviet bloc that have integrated to the West - for example Lithuania. What is the reason that Belarus does not still have strong institutions that ensure the functioning of the market environment and social growth? Belarus often gets evaluated as the state, cut off from the civilized world, and in the press is often called the "last dictatorship in Europe", and the population has either no knowledge about the possible involvement in the life of their country through civic organizations, movements and so on or simply ignores these options.

Perhaps, the trouble is laid in the Constitution and other legal acts and the principles. That is really very difficult to build a decent society on an inappropriate legal basis for this. For this reason, this paper will present the part on analysis of the current Constitution and the way it should work in theory. According to the results, it would be concluded whether this document can serve as the basis for a prosperous society.

Probably not the last role has played the Soviet past and the mentality, which is preserved in the population and the current government; or excessive pursuit of their interests instead of the public ones by the officials, which leads to the neglect of policies drawn up, as mentioned just above. In order for readers to understand this mentality this paper will provide a theoretical description of what is really happening in the Belarusian society, and then will present some empirical evidence supporting these theories.

The above and other reasons affect the productivity and the overall economic policy of the country, as a consequence is influence on economic growth, average wages, inflation, business opportunities and other indicators of economic development. Rating of Belarus

based on these indicators among the countries with the most similar way of development will be measured in the fourth chapter of this diploma. The ways of improving the situation will be proposed there.

The relevance of this topic is determined by the fact that Belarus is a country in the heart of Europe that does not effectively use all of its capabilities and resources to get out of stagnation and social and political deadlock. After all, with the help of cooperation with other European countries in addition to Russia, it is possible to arrange a mutually beneficial trade, cultural exchange and the creation of an investment climate and competitive market environment. Whether it is possible at the moment, why/ why not, recommendations for policy, and the list of bonuses that such cooperation can bring (in addition to the already existing customs union with Russia and Kazakhstan) will be discussed in the final part of this work.

The Thesis consists of five chapters and six supplements, which contain descriptions of the existing political parties in Belarus, as well as economic data on which the analysis on comparison of Belarus and other countries would be based.

During the composition of this thesis different sources of information were used. Such as printed sources: books, magazines, and online resources, using mainly the latter.

To compile the theoretical parts except of the Constitution of the Republic of Belarus were used manuscripts of a number of scholars: Niskanen, Mises, Krugman, Stiglitz, Buchanan and others. To write the practical part, the author resorted to the help of the World Bank reports, the International Monetary Fund, CIA Factbook, government statistics, and analytical journals, articles, news feeds and other means of current information.

Lúcio Vinhas de Souza's (expert of the World Bank) work on the estimates of the positive and negative effects of the Customs Union were used, which have greatly contributed to the analysis of the integration that Belarus is in at the moment.

Gatovsky.A., and I.Kashinskaya were another authors, whose manuscripts were used, while composing the Thesis. Their work focuses on the dependency of Belarus upon imports with the discount of the Russian energy.

Selected Issues of the IMF, published on 19 April 2012 by Eliza Lis and Natalia Koliadina and approved by Chris Jarvis was another source of basic information on the Belarusian's development – the outlook there was presented as an international point of view on the state of Belarus at the moment, which helped the author of this Thesis to form a “big picture” of the existing situation with Belarus, mainly not only inside view, but also presenting the outside point of view.

“Dynamics of the quantity and structure of the population of Belarus” by Shahotko L.P. was a printed source that assisted the author with the Belarusian demographic problems and the structure of the society description.

“Three Dimensions of Modern Social Governance: Markets, Hierarchies and Kinships” by V. Benáček presented a contribution to the theoretical part in description which fundamentals are lacking in the economies in transformation. This subject is very close to Belarus, as soon as Belarus presents a good example of classical economy in transition from socialism to market economy at the moment.

The main contribution of the author herself to the proposed Thesis is multidimensional analysis of the different spheres of the development of Belarus: legal norms, social and political status of the nation, economic development and integration. In order to understand where the main problem of the country’s stagnation lies – it is vital to check all the possible variants, which was proposed in the following text. To examine the increase of the quality of life of the Belarusians the econometric model was built on base of data for the 1996-2012 years. In conclusions proposes her reasons for the existing situation and couple of equivalent ways out.

Chapter 1. Theoretical background.

Belarus has been an independent State for more than 20 years already, since the collapse of Soviet Union, but still some parts of everyday life of an average Belarusian citizen remained the same – ex. infrastructure, transport, libraries, facilities, system of education, social relations, etc. As long as Belarus is a post Soviet State and is in a process of transition at the moment, it definitely has some features that needed to be taken into account while applying some theories to practice.

1.1. Three pillars of Transition.

The first 5-10 years of transition were a unique experiment held in post Soviet States in economics, social relations and organizational behavior. Society, which had usual to them organizational scheme, behavior, values needed to build a new society – task worth of being implemented by a number of generations. Sure, this process included a process of new elite introduction, adverse selection and moral hazard, which made some very rich in short period of time.

The lists of problematic fields in transition countries was infinite: information, environment, medical care, science, R&D, education, technical standards and norms, culture, national defense, arts, landscape, housing, agriculture, control over monopolies creation, competition, energy networks, transport infrastructure, public security, telecommunication, legislation, judiciary, care for children, youth, disabled and elderly, pollution, social and job security, property rights enforcement, public administration, stable currency, public procurement, bureaucracy, fiscal system and political systems. [3]

Each society has some basic pillars that it is based on. The first pillar provided is the government, which in post USSR countries was based on the hierarchies and the dominance of upper nomenclature. At the same time, there was formed an informal network, which was not based on hierarchies, but on direct interaction among its members. The result was rather wistful, because civil society represented a concept of imperfect society: individuals through compromises tried to achieve some state of sustained local optimum, though neither central command nor quasi-market could explain the organization and ways of operation of such systems.

In transition economies the growth of the private sector became the central political and economic issue, as represented the deformation of existing second pillar – economic sector.

Politicians interpreted it as a problem of a speedy privatization, which lead to mass redistributions of equity shares in state firms. [11]

The logical chain here leads to an idea of missing one pillar – absence of concentration in individuals as independent economic and social residents, i.e. lack of citizens organized in different types of community, ex. family, clubs, associations, households, etc. This unity is vital within the humanity, because people's life is dependent upon two major factors: biological and a social entity.

Table 1.1. Classification of political systems based on three pillars

Markets	Hierarchies	Kinships	Characteristics of the political system
1	0	1	Liberal
0	1	1	Syndicalist
0	0	1	Trotskyist /anarchistic/
1	1	1	Balanced /renaissance/
1	0	0	Business fundamentalism
0	1	0	Etatist /communist/
0	0	0	Nihilistic
1	1	0	Elitist /oligarchic/

Source: [3]

According Table 1.1. each state is able to gain either 1 or 0 estimate in market component, kinships component and hierarchies. To be balanced a state needs to achieve 1 point in each of the components. In case some components have zero estimates – they are not balanced any more, but have some specific features. For example, in case state has well formed hierarchies, but no social pillar and no markets – it presents an example of communist nation. On the contrary – liberal state, according the table, is the state that achieved high result in markets and kinships, but does not have any hierarchy. The most developed states in the world usually have either liberal political system, or balanced structure.

As we can conclude from the table, Belarus is somewhere in-between communist and oligarchic system, while the market pillar cannot be represented by either zero or one points – it is somewhere in the middle due to high level of government intervention in the economy. Though markets are still present in Belarus, so zero estimates would be false in this case. Hierarchy component is fully present in the state, while social pillar is mostly absent, which we will check in the following Chapter.

Table 1.2. Characteristics of social governance in post-industrial societies

	Pillar I.	Pillar II.	Pillar III.
Agents:	Firms, businesses	State, government	Individuals, citizens
Channels of interaction:	Markets	Hierarchies	Informal kinships
Origin of gains (social objectives):	Wealth creation, profits	Wealth redistribution, rents	Externalities of justice, equity, solidarity, altruism
Objective of agents:	Profits, money, wealth	Power rents of discretion	Felicity – secure, pleasant and enduring life
Instruments of power:	Money, capital, contracts	Coercive administrative institutions	Human and social capital, civil society network
Media inducing social adjustment :	Prices of goods and factors	Regulation, decrees, legal code	Culture, moral code, natural law, social cohesion
Media of governance (of the pillar):	Competition, economic policy	Political democracy, constitution	Consensus, ethics, meta-culture
Sources of growth:	Capital accumulation	Taxation capture	Education, social wisdom, cooperation, loyalty, trust
Relationship to property:	Private property	Public property	Property sharing, voluntary inter-dependence
Nature of exchanges:	Free trade	Non-equivalent, (enforced) transfers	Satisficing barter, (“reasonable” reciprocity)

Source: [3]

The political power associated with the third pillar (described in the fourth column of Table 1.2.) has been on a rise in recent 50 years, as the post-industrial economic development was gaining ground and civil society strengthened. However it is still not a dominating pillar at the existing state of development. The main function of the citizens is still seen as input factors (as labor force) or consumers of private and public goods (i.e. the recipients of public transfers). [20]

This is true in case of low level of human capital. But when the latter starts to grow through higher education standards and increase in productivity – the economic and political role of the population grows. The new trends in creating wealth and prosperity are associated ever more clearly with the control of knowledge, with social organization and education that encourage creativity and curiosity of the residents.

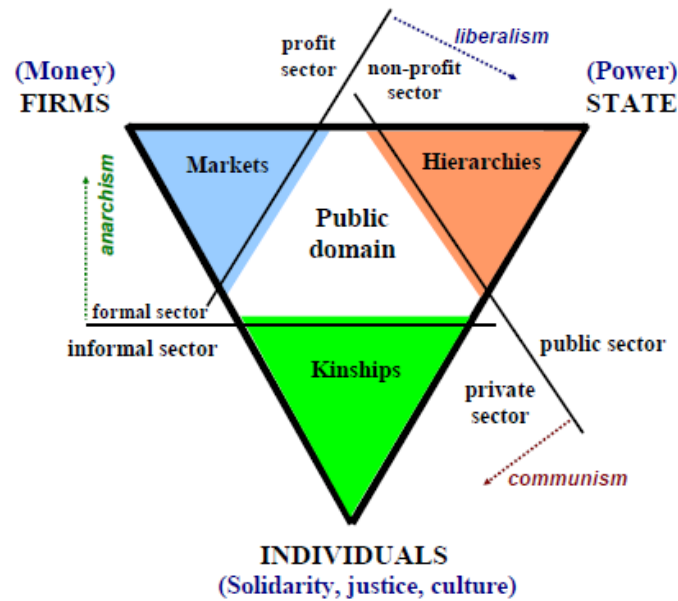


Figure 1.1. The triangle of socio-political pillars

Source: [3]

The most influential phenomenon that leads the individuals' force is the growth of human capital – growing importance of education, knowledge and specialty. According to this the most favorable destinations of shaping policy making should include advertising of R&D, education, science, health way of life, development of small businesses, etc.

The following conclusions can be drawn after introducing three pillar system of organization of social governance:

- markets, government and individuals represent mutual channels for organizing the functioning of the economic and social systems;
- the process of achieving a general social equilibrium requires the presence of democratic institutions. It is therefore crucial that each social agent (individual) has both a choice and voice in the “game”;
- the specialization of each of three pillars is also very vital. Overlapping of them can lead to inefficient allocation of resources;
- the production of public goods by government, such as education, medical care, support of science and research has a considerable impact on GDP, also has an influence on the tax burden, taken from the population;
- the active participation of society in economic and political life have the same value for development of stable and prosperous society.

1.2. Bureaucracy.

Second specific feature of the Belarusians process of transition is the mentality of the people. Here we include all people – students, businessmen, engineers, professors, etc and what is more important – authorities and bureaucracy. How actually can the mentality of the bureaucracy influence the economic, political and social spheres of life of the whole nation? The answer was found in the works of two scholars: William Niskanen, belonging to public choice school of thought and Ludwig von Mises, representative of Austrian school of economics.

In Niskanen's view, the bureaus are the consequence of the inability of the market to supply goods or services or are a response to the market's failures such as monopoly, externalities or production of public goods. Bureaucracy will exist due to inability of market to achieve zero transaction cost and produce needed amount of the good (the quantity of the product produced would always be lower, than the demanded level is); that is, bureau is de jure possible to provide greater quantities of the good than free market does. [16] This analysis is being greatly influenced by the welfare economics framework, as the reasons for government interventionism are defended by the public choice theory and Welfare School of economics.

The basic consequence of bureaucracy activity is the impossibility of economic calculation. Bureaucracy overall means inefficiency in allocating, as far as except of bureaucrat no one is concerned about the real cost of the goods and services the bureau provides .

“Bureaus are non-profit organizations which are financed, at least in part, by a periodic appropriation or grant.” [17] This means, first, that the difference between costs and income is not attributed to any person inside the organization and, second, that the revenue of this organization is not received from sale of goods or services only. According to Niskanen – the most important difference in functioning of the bureau and economic resident is non-operating for profit of the first one.

Niskanen's analysis of the introduction of the goods to the civil society by bureaus is simple. There are three critical elements of analysis in his model of bureaucracy: bureau, sponsor and the maximand of bureaucrat. There two sides of the deal – a sponsor, an institute that provides bureau with the needed amount of financing and the bureau that exchanges the money to goods. However, the bureau has an advantage, as it is more informed about the costs of production and cost of own work. From the side of sponsor everything is not so clear. Investor does not have actual figures on the costs or alternative for provision of these goods or

services. This situation of asymmetrical information allows the bureau to extract a higher budget than it would need in order to provide a given quantity of goods or services. [40]

There is also information asymmetry present in the relationship between politics and bureaucratic actor. The condition of production of goods and services are quite specific. On the market, the customers directly reveal their preferences, their needs, and the amount of money they are willing to sacrifice in exchange for specific commodity. [10] Exchange provides information concerning the quantity and characteristics of the goods or services needed. In the bureaucratic process, however, the demonstration of the needs and preferences is not direct, as individuals transfer their voices to representatives, which leads to a special bureau to provide goods and services. This two-step process increases the efficiency of office to extract higher budget. There is also the possibility that the informal coalition can be formed between the sponsor and the bureau to serve their own interests at the expense of the population.

The logical outcome is – the more products bureau produces – the higher level of financing it gets – the more profit can get bureaucrat. So, it is quite obvious, that the main purpose of each public servant is to expand the sphere of their influence.

How is it possible, that bureaucrats increase their budgets? There is a number of reasons leading to that:

- 1) the informational asymmetry is the first and the main reason for bureaus to expand;
- 2) the bureaucrat is not considered to be a passive and unselfish person. Like any other individual this actor seeks to maximize their own utility. The action of the politician or bureaucrat is not driven by general welfare only, personal profit seeking also plays a huge role in decisions, made by them. This decision making process is a true conflict between serving the public interest and satisfying personal objectives. Furthermore, sometimes serving public interest is no less but impossible, because there is no real data on the public choice upon the decision on producing public goods and their quantity. Bureaucrat can have their own opinion on this point, but there will always be as many opinions as people, providing them;
- 3) the survival argument. The bureaucrat's actions have to comply with specific framework with considerable number of constraints. The career of the bureaucrat is defined by the decisions that they made in the past, their social capital and suitable solutions to trade-offs. Consequently, there is a strong convergence between the interests of bureaucrats on the objective of promoting an increase of the budget. [5]

4) The last, but not the least is the political process that also includes some constraints for all its participants. They need to be a part of it, to fulfill some requirement of the upper positioned clerks to keep the employment place and financing of the bureau.

The bargaining, the asymmetry of information, the survival behavior of bureaus, the profit-seeking behavior of bureaucrats and politicians, and the indirect transmission of consumers' preferences are the essential factors leading to bureaus'.

Salary, perquisites, power, public reputation, patronage, ease of managing the office, and the ease of change are among the variables that may be a part of the bureaucrat's utility. All of these variables present a positive monotonic function of the total budget of the office. Maximization of the budget should be an adequate goal, even for bureaucrats with relatively low monetary motivation and relatively high motivation for changes in the public interest. It is worth mentioning that most of the outstanding state leaders have significantly increased the budget of the relevant offices in recent years, i.e. the output to the total budget, but not the budget per unit of output. Hence the bureau may assign the entire consumer surplus. [24] However, as shown below, this feature of the office leads to significantly different turnout, budget and welfare compared to the levels provided by the monopoly. The example of equilibrium conditions for offices, dealing with linear demand and cost functions are displayed below. Firstly we consider buy factors in a competitive market office for which:

$$v = a - b * Q$$

and

$$C = c + 2d * Q, ^1$$

where V — marginal value for consumers, C — minimal marginal costs of the bureau, Q — output of the bureau.

Next, for these conditions:

$$B = a * Q - \frac{b}{2} * Q^2$$

and

$$TC = c * Q + d * Q^2$$

где B — total budget of the bureau, a TC — minimal total costs of the bureau. [6]

¹ The marginal cost function of the office, which is not a discriminating monopolist, includes factorial surplus. Average cost function for the bureau and the marginal cost function for the monopoly or offices that are discriminating monopolist would be $C = c + d * Q$.

For these conditions, the equilibrium level of Q is determined as follows: the maximization leads to an upper level of $Q = a / b$. Restriction that under certain conditions B has to be equal to or greater than TC , gives the lower level of $Q = 2(a - c) / b + 2d$. These levels of Q coincide in case when $a = 2bc / b - 2d$. Thus, for the office, buying factors on a competitive market, the equilibrium level of Q is achieved in the point where:

$$Q = \begin{cases} = \frac{2(a-c)}{b+2d} & \text{for } a \geq \frac{2bc}{b-2d} \\ = \frac{a}{b} & \text{for } a < \frac{2bc}{b-2d} \end{cases}$$

Figure 1.2. illustrates equilibrium levels of output presented here.

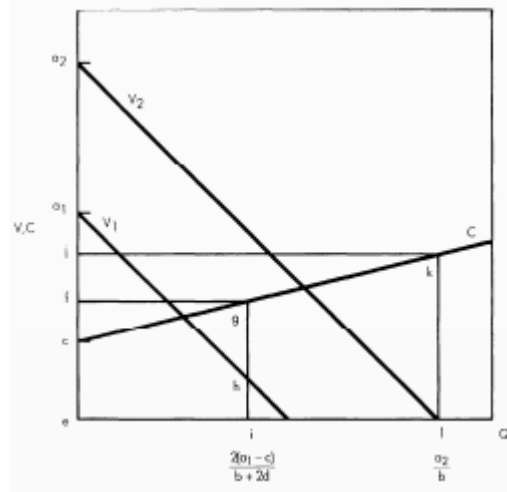


Figure 1.2. Equilibrium output of the bureau

Source: author's interpretation.

For lower demand conditions represented by the V_1 line, the equilibrium output of the bureau will be concluded within the budgetary constraints, where the area of a polygon EA_1HI is equal to the area of a rectangle $EFGI$. At the equilibrium level of output total budget just covers the minimum cost and cost-benefit analysis would not reveal any wasted resources.

However, the release of the bureau is above the Pareto-optimal level. The equilibrium level of output is situated in the area where the minimum achievable marginal costs IG are significantly higher than the marginal value to consumers IH ; costs cover entire consumer surplus that would be generated by effective action with lower-budget expenditures. If the minimum marginal costs increase with the output due to increase in unit factor costs (rather than performance decrease), this office will bring significant factor surplus equal to the triangle SFG ; the surplus is larger than the one that might be produced at a lower Pareto-

optimal output. Legislative bodies representing primarily the interests of factors, for obvious reasons, prefer the provision of public services through the bureau. [6]

For the higher demand conditions represented by V2, the equilibrium output of the bureau will be in limited supply range where the marginal value of output is equal to zero. In this case, the total budget will be represented by a triangle ea_{21} and more than minimal total costs equal to the rectangle EJKL. A careful analysis would show that the same output could be achieved with a smaller budget, but the analyst should not expect cooperation from the bureau, as the latter has no incentive to know or show their minimum cost function. On this part the equilibrium level of output depends only on demand conditions. Level of output of this office is also higher than Pareto-optimal level. Costs absorb the entire consumer surplus again when the level of output is in the point where minimal marginal costs equal to LK, and the marginal value of consumers is equal to zero.

This model creates an image of the office of the level and rate of growth of output up to twice that amount of the competitive industry in the same conditions. Consumer demand can serve the basis for the establishment of offices, but the incentive of the group to maintain offices weakens or disappears as the office ceases to build consumer surplus.

The next step is to recognize some ways to solve the problem of bureaus growth without economical background reason. The differences in the means proposed by the two authors: Niskanen and Mises are strongly influenced by their particular theoretical framework. Niskanen's goals are to promote competition and elaborate mechanisms which could provide information to the sponsor. Niskanen proposes to establish competition among the bureaucracies and in order to simulate perfect competition market – control the existing asymmetry of information. The objective is to make economic calculation possible.

The conclusions made by Mises were more radical: the solution is to promote capitalism by economic education and to reduce governmental interventionism into the private economy. [40]

So, it would be necessary for all the members of the society to have at least some basics of economic education to understand the core trends in the economical and social system. Another plus of this attitude is that in cases, when an individual needed to make at least some public choice – choose a representative of projection of their interest, decide in the club upon the production of certain public goods and their quantity, etc, they would be guided by rational principles. [1] The range of those principles is wide – economic program of the candidate, demand for certain good, equilibrium price, practicability of the program offered by certain candidate, etc.

Chapter 2. Fundamental legislation.

2.1. Constitution of the Republic of Belarus. Basic facts.

In accordance with the Constitution of Belarus dated 1994, the Republic of Belarus is a unitary democratic social legal state. The Republic of Belarus has the supreme power in the territory, independently carries domestic and foreign policy, as well as defends its independence and constitutional order, territorial integrity; enforces law and legality. [49]

The only source of state power and the bearer of sovereignty are the people of the Republic of Belarus, they exercise the power directly, through representatives and other bodies. State power is based on the separation of executive, legislative and judicial powers. State authorities within their powers are independent: they interact with one another and keep to “check and balances” principle.

The current Constitution was drafted in 1994 and amended in 1996, 2004 years. It is also said to be the Fundamental Law of the State. Present Constitution is the 5th in the Belarusian history.

The Belarusian Constitution centers around 3 key elements:

- the establishment of a new state mechanism;
- the regulation of rights and freedoms;
- the reworking of new laws and a new justice system. [47]

The Constitution was drafted by the Supreme Soviet of Belarus (former legislative body of the country, not existing at the moment). The contents of the Constitution include the preamble, nine sections, and 146 articles. The Constitution of the Republic of Belarus was adopted by Parliament on March 15, 1994. In November 1996 70.5 percent of voters supported the presidential version of the new Constitution providing a substantial expansion of presidential powers on referendum.[47] In 2004, the Constitution of the Republic of Belarus was amended and supplemented again - removing presidential term limits and allowing the President in force (Alexander Lukashenko) to take part in the upcoming presidential elections for the 3rd time, even though the prior version of the Constitution allowed only 2 terms for a candidate.

Both referendums for amending the Constitution were heavily criticized by the political opposition inside Belarus as well as by international observers such as the OSCE. It was stated that both referendums were non-transparent and that the real results were never published.

According to the results of the republican opinion poll held by The Gallup Organization/Baltic Surveys at the end of September, 2004 (month before the referendum on 17 October, 2004), 39 % of the voters were ready to vote for taking Constitutional Amendments, 32,5 % - against, the rest of the population were still not sure about their final decision. Official statistics though states 79, 42% official votes in favor of the Constitutional amendment. [25]

Observers were not allowed to see the process of counting ballots. Likewise, the democratic opposition made a decision to boycott that referendum. [2] Despite the claims of manipulation of the elections and the Constitution, there are a few parts of the current constitution that were approved by key leaders of the Belarusian democratic opposition of that time.

Coming back to the content of Constitution it is worth mentioning, that the first section of the Constitution of the Republic of Belarus contains a section "Basics of constitutional order." The fact that the beginning of the Constitution text is represented by this section is seen as evidence of its fundamental importance. So, what are these foundations of the constitutional order?

At first, it is necessary to define the constitutional order. The modern definition of the constitutional system has two aspects: the formal and substantive. As from the standpoint of the constitutional order of the formal approach it can be defined as any unit of the state and society on the basis of the constitution. Thus, as we can see, it does not matter whether the constitution is democratic and which values are fixed there. However, if a constitutional order is described that way, it can be concluded that any state (as long as it has a "constitutional" system) is constitutional. However, not every state is constitutional (legal). Here it is very important to turn to the second aspect - the content aspect - the definition of "constitutional order." In this sense, the constitutional order is understood as the social and political system, characterized by democracy that has the following important features:

- 1) the subordination of the state law (not formally proclaimed, but really embodied);
- 2) recognition of basic human rights, existence of legal body which conforms to the recognized principles and norms of international law (as contained in such important documents as the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights, the International Covenant on Civil and Political Rights, etc.);
- 3) separation of powers, checks and balances as a major restraint against sliding power to authoritarianism and tyranny;

- 4) the variety of forms of property and real possibilities for the existence and development of private property as the most important conditions for the manifestation of freedom and autonomy of the individual;
- 5) political pluralism, i.e. diversity of opinions, views and opinions, establishing and functioning of political parties;
- 6) the existence of civil society, i.e. system of public institutions operating in the state independent of it.

The constitutional order is determined by all constitutional legislation of the country, which, of course, may have some shortcomings, which though do not distort the nature and character of the relations between state, society and individuals. Democracy, rule of law, social state, the optimal balance of rights and legitimate interests of the state, society and individuals can be called the foundations of the modern constitutional system. [50] These foundations were translated into the Constitution of the Republic of Belarus.

All of the above mentioned facts lead to the conclusion that the Constitution of the Republic of Belarus is not only proclaimed, but theoretically guarantees the effective exercise of the most important constitutional provisions: "A human and their rights, freedoms and guarantees of their implementation are the highest value to society and the State" (Article 2). This creates a wide and lasting constitutional and legal basis for the development and functioning of the ideological doctrine of statehood based on humanistic principles and aimed at the creation of a real stable and prosperous Belarus, providing its citizens with a high level of material and spiritual well-being, positive social, physical and spiritual development of the personality.

2.2. Branches of Power.

President is the head of state and is elected by direct voting procedure for a term of 5 years. The same person may hold the office of President of the Republic of Belarus for more than two consecutive terms.

The President represents the unity of the nation, the implementation of the main directions of domestic and foreign policy; also is a spokesperson of the State in its relations with other states and international organizations. President is to implement measures to protect the sovereignty of the Republic of Belarus, its territorial integrity and national security; ensures economic and political stability, interaction of bodies of state power; and plays the role of a mediator between the public authorities.

President has a broad range of functions, the most important of which are:

- determine the structure of the Government of the Republic of Belarus and appoint or dismiss Ministers, Prime Minister and other members of the Government;
- accept the resignation of the Government or some of its members;
- appoint the heads of national government bodies and determine their status;
- sign laws;
- have the right to veto some law proposed by the House of Representatives or send it for the corrections;
- has the right to annul acts of government;
- be Chief of Armed Forces of the Republic of Belarus;
- appoint a national referendum;
- may issue decrees having the force of law.

To become a President a person has to be a citizen of the Republic of Belarus by birth, aged at least 35 years, be eligible to vote and be a resident of the Republic of Belarus for at least ten years before the election. The President is elected directly on the basis of universal, equal, free and direct suffrage by secret ballot by the people of the Republic of Belarus. [50]

The Parliament is represented by the National Assembly of the Republic of Belarus (the highest legislative body in Belarus). It consists of two chambers: the House of Representatives and the Council, elected for a term of 4 years each. The House of Representatives of the National Assembly presents the lower house of the parliament of Belarus. Council of the National Assembly is the upper house of the parliament of the Republic of Belarus.

Parliament is the representative and legislative body of the Republic of Belarus. The National Assembly was established in 1996 and the term of office is 4 years.

House of Representatives has 110 members. The election of the House of Representatives in accordance with the law is based on the basis of universal, free, equal and direct suffrage by secret ballot. Elections take place in single-seat constituencies.

The main powers of the House of Representatives:

- consider and adopt the draft laws;
- agree to the appointment of the President, Prime Minister;
- express censure vote to the government;
- makes accusations against the President.

The Council was launched on January 13, 1997, and consists of 56 deputies - 8 from each province and 8 from the city of Minsk by secret ballot. [48] Another eight members of the Board are appointed by the President of the Republic of Belarus.

Its main powers:

- six members of the Central Commission for Elections and Referenda;
- elect six judges of the Constitutional Court;
- reject or approve draft laws, passed by the House of Representatives;
- consent to the appointment of the Chairman of the Constitutional Court, the President and judges of the Supreme Court and other senior officials;
- consider the presidential decree on the state of martial law and emergency.

Executive branch of power is represented by the Government, or in another words the Council of Ministers, which is the central body of state administration. The Government consists of the Prime Minister, his deputies, ministers and heads of other central bodies of state administration. The Government is to report to the President and is responsible to the Parliament of the Republic of Belarus.

The Prime Minister is appointed by the President of the Republic of Belarus with the consent of the House. Main function of the Prime Minister is supervision of the work of the Government.

The Prime Minister:

- manages the activities of the Government directly and is responsible for its work;
- signs the decree of the Government;
- informs the President about the main activities of the Government;
- performs other functions relating to the organization and activities of the Government.
- The Government of the Republic of Belarus:
 - directs the system of subordinate governments and other bodies of executive power;
 - develops main directions of foreign and domestic policy, and take measures for their implementation;
 - develops and submits to the President the draft of the budget and report on its implementation;
 - ensures the implementation of a single economic, financial, credit and monetary policy, public policy and policies in sphere of science, culture, education, health, environment, social welfare and wages;

- takes measures to ensure the rights and freedoms of citizens, as well as protection of state interests, protection of property and public order, national defense and security;
- acts on behalf of the owner of property owned by the Republic of Belarus, as a manager of state property;
- ensures compliance with the Constitution, decrees, laws, orders and other instructions of the President;
- repeals acts of ministries and other central bodies of state administration;
- exercises other powers vested to it by the Constitution, laws and acts of the President.

The judicial system of Belarus is based on the principles of territoriality and specialization. The judicial system consists of district and municipal courts, exactly speaking courts of first instance, the regional courts, the Supreme Court and Supreme Economic Court. Judges in the administration of justice are independent. They are the subject to law only. Any interference in the work of those judges is prohibited and punished by law.

The Supreme Court of the Republic of Belarus is the highest judicial body that administers justice in civil, administrative and criminal cases, controls the judicial activities of the general courts.

The Constitutional Court of Belarus oversees the constitutionality of regulations in the state. The Constitutional Court is formed of 12 judges having solid qualification in the field of law. Six judges of the Constitutional Court are appointed by the President of the Republic of Belarus, while other six are elected by the Council of the Republic. President of the Constitutional Court is regularly appointed by the President with the consent of the Council.

2.3. Election process.

Methods of election and the counting of votes have their own characteristics in each country. The electoral system is an essential and indispensable element of a democratic political regime. The electoral system - a set of constitutional principles of the organization and conduction of elections, the establishment of the fundamental relationship between the electorate and the elected. The legal basis of the electoral system is expounded in the Constitution of the Republic of Belarus in a special chapter, devoted to the electoral system.

The following principles of electoral law are proclaimed in Belarus:

- Universal suffrage (Article 64 of the Constitution: "... the right to vote is given to citizens of the Republic of Belarus reached at least 18 years." Exceptions of those are citizens who are contained by a court in custody);
- Free elections (Article 65 of the Constitution: "... voters decide personally whether to take part in elections and in favor of whom to vote. Preparation and conduct of elections will be open and public." All contestants must have a free access to the media, to promote their programs, to obtain reliable information about life in the country. Elections held in violation of human rights, rigging the results are not considered free and democratic. Receiving power through these elections, its owner sooner or later loses the trust of citizens and gets rejected by them);
- Equal elections (Art. 66 of the Constitution: "... the voters have an equal number of votes. Candidates standing for public office, participate in elections on an equal basis");
- Direct suffrage (Article 67 of the Constitution: "... deputies are elected directly by citizens." Members of the House of Representatives of Belarus, as well as the head of state are elected directly by the citizens through direct elections. The only exception is the elections to the Council of the Republic);
- Secret ballot (Article 68 of the Constitution of the Republic of Belarus: "... monitoring of voters during voting is prohibited." Every voter has only one vote. Bulletin filled in the booth for a secret ballot, which prohibits the presence of outsiders. This provides the freedom of expression of citizens).

In this way, the President of the Republic of Belarus is elected if he gained more than half of the votes of the citizens that took part in the voting process. Elections are considered invalid if less than half of the people on the lists of voters attended the elections. Code provides that if the ballot included more than two candidates for President of the Republic of Belarus, and none of them receives the required number of votes, the Central Commission runs a second round of voting in two weeks' term for the two candidates who obtained the greatest number of votes. The results of the second round of voting are to be published in three days.

The candidate for office, to win in the second round, should gain more than half of votes that took part in voting. Elections are considered valid if the attendance was 50% and more from all the citizens registered for the voting lists.

The procedure for elections went into force on March 26, 2000 by the Electoral Code of the Republic of Belarus. The Electoral Code states that the election of the President, the House of Representatives of the National Assembly and local councils is based on the traditionally prevailing in society, the majoritarian electoral system.

The basic features of majoritarian system:

- high degree of concentration of the executive power in the state;
- the fusion of power and cabinet dominance, which makes the Cabinet and the Parliament dependent upon each other;
- the system of asymmetric bicameralism. The word "parliament" is often referred to as The House of Representatives. In the majoritarian system the bicameralism is often fictional, while in reality it comes closer to being an unicameral legislature;
- plurality system of elections;
- government is usually centralized and unitary;
- local governments are highly dependent upon central government in financial proceedings. [23]

Thus, we can conclude that the Republic of Belarus uses a majoritarian electoral system, which is historically the first electoral system and is most prevalent in the world. Its main goal is the formation of an absolute parliamentary majority of any political or social power, which actually favors the election victory of major political parties and minor cuts. The above is the main reason for criticism of this electoral system.

Governmental associations, political parties, labor groups and citizens in accordance with the law have the right to nominate candidates. Nomination of candidates may also occur by collecting signatures.

Elections are conducted by polling commissions. Election commissions should inform the public about the work and decisions that are taken. On the day of direct voting polling commissions should allow members of parliament, representatives of different political parties, public organizations, labor groups, observers from other states to oversee the process of how voting is organized.

Only free, fair and regular elections can provide a situation in which a change of leadership of the country does not threaten society split and does not destroy the mechanism of public administration, but on the contrary, increases the efficiency and stability of the political system and strengthens the harmony in the society.

Thus, summing up the above, we can conclude that every electoral system has its advantages and disadvantages. Policy of the Republic of Belarus is aimed at maintaining stable society. Majoritarian electoral system best suits these goals.

Chapter 3. Structure and quality of the society.

All the processes that pass in the society are driven by the forces of population and the ruling coalition. Both groups consist of humans that have some psychological features as past, which influenced their world outlook, relation to society and ruling coalition, latitude of ideology. These characteristics influence their decisions, choices and as an effect – their overall behavior.

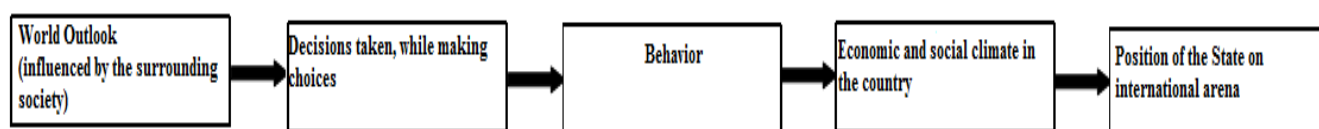


Figure 3.1.

Source: author's interpretation

3.1. Structure of the population.

At the beginning of 2012, the population of the Republic of Belarus stated 9480.2 thousand people. The urban population - 74.5% and rural - 25.5%. According to the 2009 population census, population of 1 million 828 thousand people resided in Minsk (capital of Belarus), or more than a quarter (25.9%) of the total urban population. [34]

For the first time death rate exceeded the birth rate in 1993, and the country entered a new stage of its development - depopulation. For more than 15 years the annual number of deaths exceeded the number of births and, in spite of the continued positive net migration, the population in the country was decreasing.

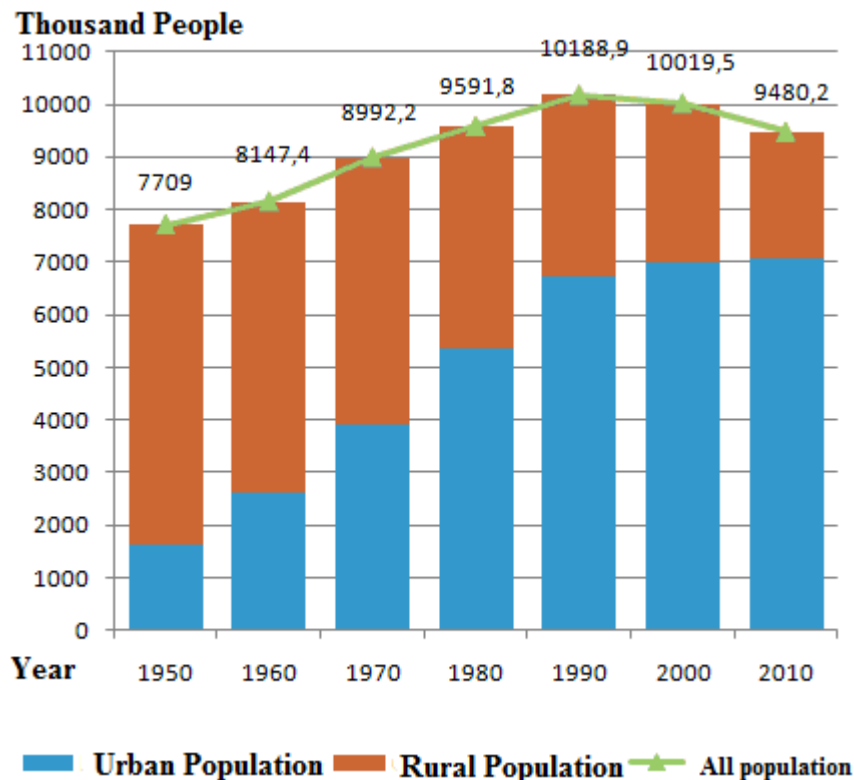


Figure 3.2. Population Dynamics for the 1950–2010 period.

Source: National Statistic Committee of Belarus

Depopulation in Belarus is not a unique phenomenon in the world. It is observed in many other European countries. In France depopulation noted back in the 1940s, in Germany, it started in the 1970 and lasts by now. Since the early 1980's depopulation began in Hungary, and from the mid-1990s in more than a dozen European countries: Belarus, Bulgaria, Greece, Italy, Latvia, Lithuania, Moldova, Russia, Romania, Slovenia, Ukraine, Czech Republic, Sweden, Estonia. However, the countries of Western and Southern Europe replenish natural decrease by net migration, and in general, the population of these countries is increasing.

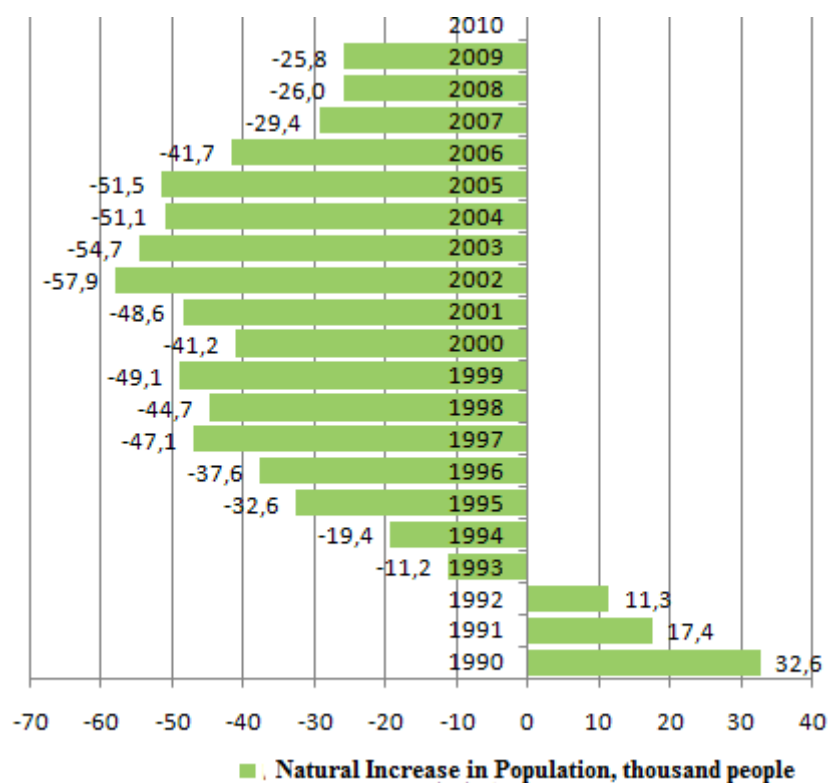


Figure 3.3. Natural Increase of population of Belarus in the 1990–2009 period, thousand people

Source: National Statistic Committee of Belarus

The composition of the population by age and sex has significantly affected social and economic development of the country, as different age and social groups usually have dissimilar views on the ways of functioning of the government since their needs and interests differ.

The sharp increase in population of the seniors requires a significant increase in spending on pensions, health care improvement, and organization of special social assistance for the elderly, single people who have lost the ability to self-service, as well as other problems of elderly people. The number and proportion of people of retirement age before the end of the twentieth century was constantly increasing. According to the UN method, the population, which has the proportion of persons aged 65 years and older on level more than 7%, is considered to be old.

In 2009 (the year of population census) there were about half a million people aged 65 years and older (1350.5 thousand). They accounted for 14.2% of the total population of the Republic; it is more than two times greater than that of the aged population, according to the UN method. [8]

What does this information have with the social development of the State? As we can see, aged people and rural population account for a considerable part of the population. Here, one fact is worth mentioning: Belarus has sex and age structure, which clearly shows the influence of the effects of war, fluctuations of economic growth, the impact of measures of population policies, changes in mortality and birth rates, migration .[8]

The most influential event on the world outlook of people, who are now seniors, happened to be the World War II, which passed on the territory of the former USSR and mostly on Belarusian territory from 1941 to 1945. The years of bombing, constant fear, hunger, death has significantly influenced the state of society during the decades after the end of the war. All the cities were ruined, lots of people were missing, lack of men for reestablishment of the cities was stated, but still society was grateful, that the war was over and peace time began. This tendency is due to be present in the minds of elderly people and first generation of their descendants by now: “if only there was no war”. It is indifferent to them whether they or their children, grandchildren, etc, have the possibility to travel, have the access to innovative products, cheap credits, and freedom of speech or high level of living standards. The only thing that matters is – absence or presence of the military regime, and if not – situation in the state is satisfactory.

Here we can conclude that this share of the population shall not protest or express discontent to the events, that occur in the society; however they accumulate approximately 25% of the voting population in the country.

3.2. Human Development index and income measure of the society.

The level of education is one of the most important indicators of the quality of the population. Level of education is one of the three components used to calculate the UN Human Development Index. The level of education is characterized by several factors. One of them is the literacy rate. Census data suggest the republic of Belarus is actually a solid literacy (99, 6%). [34] Such a high literacy rate was the result of a deliberate policy of the country in the prewar and postwar years. Last census in 1989, 1999 and 2009 showed that the rate remained stable at a level below 0.4%, and we can assume that it's mostly people who have not had the opportunity to attend school because of physical disability or chronic illness. Education level among younger persons who are aged 25-29 is the highest at the beginning of the XXI century.

Each year since 1990 the Human Development Report has published the Human Development Index (HDI) which was introduced as an alternative to conventional measures of national development, such as level of income and the rate of economic growth. [39] The HDI represents a broader definition of well-being and provides a composite measure of three basic categories of human development. They are: education, health and income. Belarusian HDI is equal to 0.793, which gives the country a rank of 50 out of 187 countries with comparable data. [39] On the Figure 3.4. we can see graphically represented comparison of the Belarusian estimate to Europe and World's parameters. However, it is misleading compared values and rankings with those of previously published reports, because the data and methods of its calculation have changed, as well as the number of countries included in the HDI rating. So, the comparison starts with year 2005.

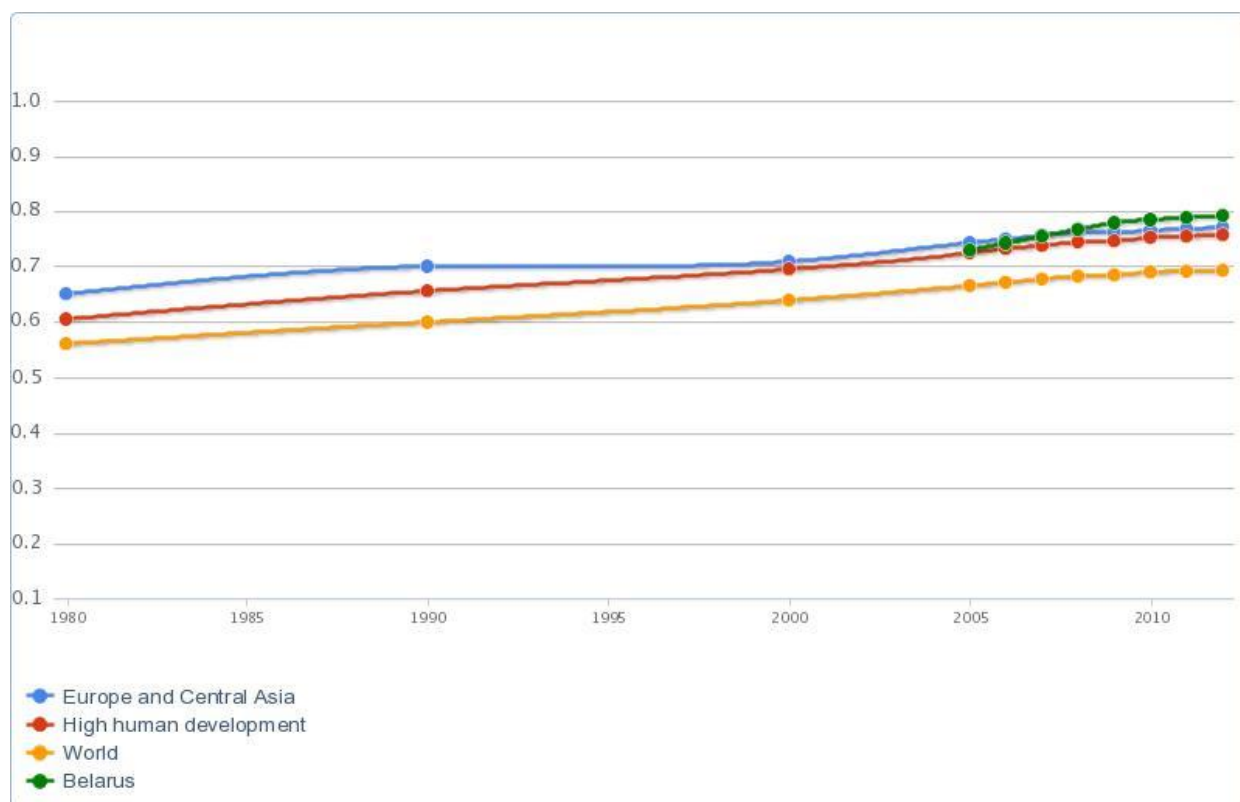


Figure 3.4. HDI of Belarus in comparison with the average rates.

Source: www.data.worldbank.org

As we can see, Belarus has relatively high estimate of the HDI in comparison with the average level. The components of the HDI are provided below on the Figure 3.5.

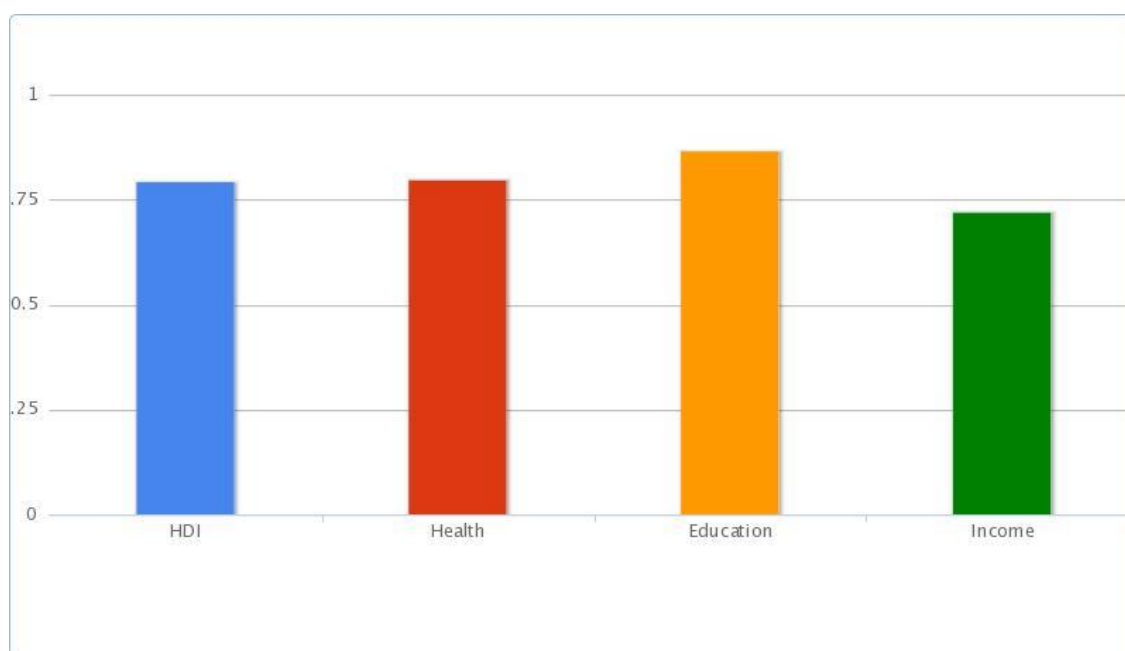


Figure 3.5. Components of the HDI for Belarus.

Source: <http://hdrstats.undp.org/>

Here, we state that the misleading component is the income of the population, whereas education is the highest of three. Worth mentioning the fact, that Belarus is one of a couple exceptions from Bologna process. The country got a refuse to an entry this process at the beginning of 2012, nevertheless this has not influenced the overall level of education.

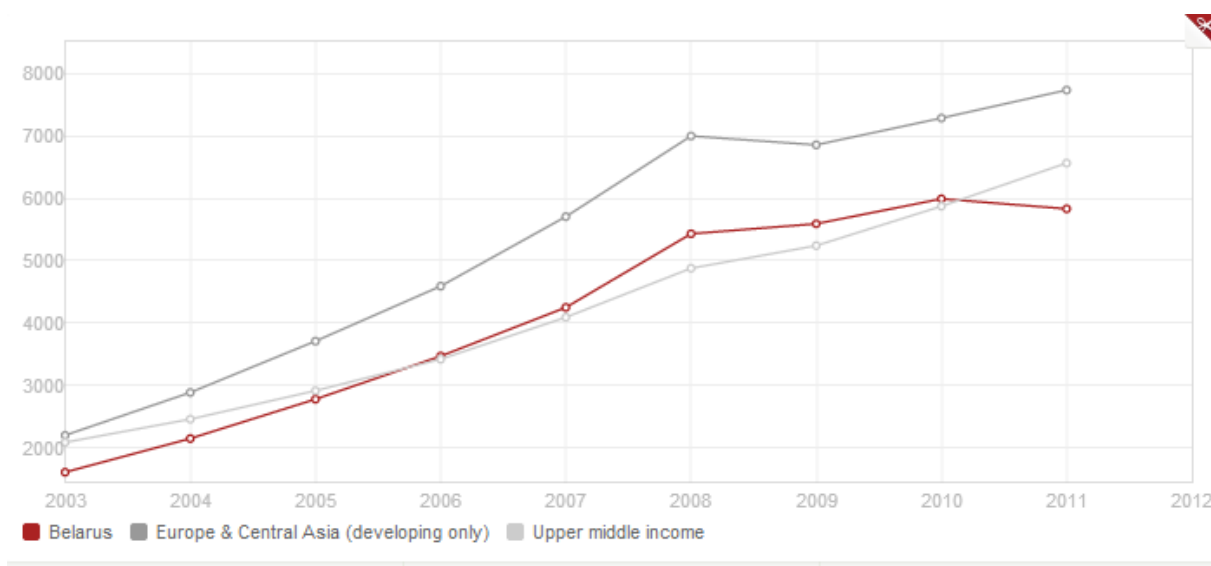


Figure 3.6. GNI per capita, Atlas method (current US\$)

Source: www.data.worldbank.org

GNI per capita (formerly GNP per capita) is the gross national income, converted to U.S. dollars currency using the World Bank Atlas method, divided by the average population number. GNI is the sum of value added by all resident producers plus any product taxes not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. GNI is usually converted to U.S. dollars at official exchange rates. [53]

According to the Figure 3.6., over the last 10 years Belarus has oscillated around the middle-income estimate of GNI, not heading higher up to developing countries' level. The results furthermore have sharply decreased after 2011 financial crisis, which through away the development of the state a couple years back.

The next point about the overall income of the citizens concerns the labor market. The Belarusian government declared to have one of the lowest unemployment rates in the world.



Figure 3.7. Unemployment rate in Belarus, 2004-2013

Source: <http://www.tradingeconomics.com/belarus/unemployment-rate>

As we may see on Figure 3.7., the unemployment rate in Belarus is below 1%, which is an incredible result compared to the unemployment rates in the neighbor states: Poland has 10%, Ukraine has more than 8 per cent and Lithuania is around 15%.

Actually, the official statistics does not reflect the realities. The actual number of unemployed people is much higher than 0.5 per cent stated in the official statistics, while social support for

them is almost absent. Moreover, thousands of citizens prefer to work either in the 'shadow sector' or abroad. [51]

And here is the turn of the tricky part of the story. The National Statistics Committee included into count of unemployed only those individuals who register at employment agencies. The number of people who are factually unemployed, but prefer not to register - are not included in the final statistics. Because of this methodology it is quite difficult to assess the real unemployment rate and factual number of people, who register at employment agencies, is extremely small. Why do Belarusians choose not to register at the agencies?

The main reason not to register is the extremely low level of unemployment benefits. According to the National Statistics Committee, the average payment accounted around 143,500 Belarusian rubles (around \$16) a month in February 2013. [56] This sum presents around 15 per cent of the basic needs budget, which is probably not enough for even basic physical survival: buy some food and pay for energy and water. [51] And even for this minimum a person has to survive through a number of bureaucratic procedures such as collecting papers, signatures and stamps that requires a lot of time, patience and transactional costs.

The second reason is that the registered job seekers are to participate in public works. While unemployed are looking for a job they are also obliged to take part in public works. The agencies send them to such actions as seasonal agricultural works or sweeping the streets. The payments there are very low.

The result is: a lot of unemployed prefer to search for jobs on their own instead of trying to rely on the help from the state. They also often look for opportunities in the 'shadow sector' or go to work abroad – the nearest neighbor countries such as Russia, Poland or Lithuania. This brain drain for higher wages and standard of living is typical for the youth and qualified professionals.

3.3. Quantitative measure of different factors' impact on the living standards of the society.

In modern society, the study of the dynamics of quality of life in the region and its forecasting regarded as a landmark to anticipate steady and progressive socio-economic development of society.

In this abstract, the term "quality of life" shall mean an integral category that characterizes the level of economic development of a society with a focus on the needs of the population

(psychological, physical, social, spiritual, etc.), correlated with the national social standards and resource capabilities.

For the measurement we will need a system of indicators characterizing the "quality of life". System performance is presented in the form of five components that includes 28 indicators in total. Data covers a period of 17 years. The system is formed from the performance areas of Belarus for the period of 1996-2012 years. It meets the following criteria: accessibility, comparability over time, reliability. For example, all cost parameters are comparable in terms of time by applying to them in relation to the minimum consumer budget.

Group of factors looks as follows:

1. The welfare of the population:
 - 1.1. the ratio of the revenue to the minim living wage;
 - 1.2. the ratio of the average monthly salary to the minim living wage;
 - 1.3. number of cars in private consumption (per 1000 people);
 - 1.4. total area of housing per capita (sq. m);
 - 1.5. the relationship of retail turnover and paid services per capita to the minim living wage;
 - 1.6. the proportion of the population with income below the poverty line, %.
2. The quality of the social sphere:
 - 2.1. number of fatal or disability victims in industrial production, per 1,000 employees;
 - 2.2. the ratio of the average size of pensions to the minim living wage;
 - 2.3. number of crimes per 100 thousand people.;
 - 2.4. number of doctors and hospital beds per 10 000 population.
3. Quality of the population:
 - 3.1. life expectancy (years);
 - 3.2. the birth rate of the population;
 - 3.3. infant mortality rate (people per 1000 births);
 - 3.4. number of deaths from neoplasm, cardiovascular diseases, suicides (100 thousand people);
 - 3.5. the balance of migration.
4. Quality of ecosystems:
 - 4.1. the fraction of the contaminated areas to the total area of the region;
 - 4.2. mass of pollutants released into the atmosphere from stationary sources in the average per capita (kg);

- 4.3. mass of pollutants emitted into the atmosphere from mobile sources, the average per capita (kg);
- 4.4. proportion of contaminated water in the total volume of wastewater released into surface waters,%.
5. Education and Culture of the population:
 - 5.1. the fraction of workers with higher and specialized secondary education;
 - 5.2 number of students in universities per 10 thousand people;
 - 5.2. number of visits to theaters and museums per 1,000 population;
 - 5.3. the ratio of divorces to marriages per 1000 population per year,%.

The proposed system contains indicators, measured in comparative terms. However, the units are different, so all the figures were adjusted to a common scale of measurement in the range [0-1] so that the indicator had transformed the meaning of "the more, the better." It is suggested that the five components, which are the part of the category of "quality of life" are equivalent (weighting factor for each component 0.2). Thus, the higher the resulting score, the better the quality of life in the region.

During the period 1996-2012 the average level of the quality of in the region increased from 18.1 to 26.5 points. A positive trend of continuous growth of the quality of life was present in all regions of the country.

As far as statistically dependent parameters can not be included in a single model (the effect of multicollinearity), the first step was to check the fact of presence of bias among the variables with the help of the correlation matrix of the original group of indicators. The next step was running regression models:

$$\hat{R} = 36,58 - 1,84x_1 + 0,06x_2 + 0,44x_3 + 0,28x_4 - 0,07x_5 \quad (1)$$

$\begin{matrix} 10^{-16} & 10^{-15} & 0,0001 & 0,044 & 9*10^{-5} & 0,0004 \end{matrix}$

$$\hat{R} = 35,1 - 0,05x_6 + 0,22x_7 + 1,32x_8 - 0,09x_9 - 0,78x_{10} \quad (2)$$

$\begin{matrix} 9*10^{-1} & 14*10^{-6} & 10^{-16} & 8*10^{-3} & 8*10^{-6} & 7*10^{-3} \end{matrix}$

In these models:

- R - integral indicator of the quality of life;
- x_1 - infant mortality per 1000 population;

- x_2 - the ratio of the revenue to the minim living wage;
- x_3 - the proportion of workers with higher education;
- x_4 - the number of doctors and hospital beds per 10 000 population;
- x_5 - mass of pollutants emitted into the atmosphere from mobile sources in the average per capita;
- x_6 - the number of deaths from circulatory diseases per 100 000 population;
- x_7 - the ratio of the average monthly salary to the minim living wage;
- x_8 -the share of workers with Secondary education;
- x_9 - the number of crimes per 10 000 people
- x_{10} - share of the contaminated water in the total volume of wastewater released into surface waters.

For model (1):

- correlation coefficient $R = 0,96$;
- the coefficient of determination $R^2=0, 92$;
- residuals of the model (1) satisfy the assumptions of LS. No autocorrelation: $r = 0.06$, Durbin- Watson statistics $DW = 1,83$;
- All regression coefficients are highly significant ($p < 0.05$).

For the model (2):

- the correlation coefficient $R = 0,92$;
- the coefficient of determination $R^2 = 0,84$;
- Residuals of the model (2) satisfy the prerequisites of the LS. no autocorrelation $r = 0.16$, Durbin-Watson statistic $DW = 1,66$;
- coefficients are also significant ($p < 0.01$).

On the basis of the reliability of the coefficients of the models (1-2) we can verify the influence of the factors included in the model on the quality of life in Belarus for 1995-2012. According to the model (1), the largest contribution to the prediction of R has the indicator "infant mortality", then - "the ratio of the revenue to the minim living wage ", "mass of substances released into the atmosphere," "share of workers with higher education". According to the model (2), the largest contribution to the prediction of R has the indicator "the ratio of the average monthly salary to the minim living wage ", then - "the number of crimes per 100 thousand population".

With the help of models (1-2) analytical forecast changes in quality of life of the population on average can be integrated. For example, a decrease in the infant mortality rate per unit will

increase quality of life by 1.84 points, with an increase in the share of workers with secondary education in the organizations by 1% will increase the quality of life by 1.32 points, etc.

The study has the following conclusions:

- according to the calculated integral evaluation, results indicate improvement in the quality of life of the population of the republic from 1995 to 2012;
- Model (1-2), describing the relationship of the integral evaluation of quality of life of Belarus with in the period of 1995-2012 showed that the increase in quality of life of the population was primarily due to the nominal growth of average wages and income of the population, reducing infant mortality, improving education of the population, decrease in quality of life - through increased crime, increased mortality from cardiovascular diseases;
- increasing standards of life factors do not have high coefficients.

3.4. Political activity of the society.

Belarus has never had strong political parties. In the early 90's BPF (Belarusian Popular Front) was the most influential party. That time this party was able to attract thousands of people under their slogans. Even though, the Party still exists, action handled by it has decreased and became powerless over the last couple of years.²

The tendency of political Parties has a decreasing trend within the years since first elections to the Parliament's House of Representative. It can be easily seen in the Table 3.1 – the majority of the members of the House of Representatives are non-partist, as their Party membership is indifferent. In the end of the 90th almost half of the seats were taken by the representatives of some parties, at the moment their quantity is only 5 out of 110 members, which accounts for 4, 5% of the seats. At the moment there are 15 officially registered Parties in the Belarus, though a couple of them do not have any official public action.³

² See Supplement 1

³ Short description of each Party's agenda can be found in the Supplement 1.

Table 3.1.

Partial representation in the HR of the Parliament of the Republic of Belarus, 1996 – 2012

Name of the Party	2012	2008	2004	2000	1996
Liberal Democratic Party	0	0	1	1	0
Belarusian Social Democratic Mass Party	0	0	0	0	6
Labor and Justice Party	1	0	0	2	0
United Civic Party	0	0	0	2	0
Communist Party	3	6	8	6	20
Conservative Christian Party	0	0	0	0	0
Green Party	0	0	0	0	0
Belarusian Popular Front	0	0	0	0	0
Social and Sports Party	0	0	0	1	0
Agrarian Party	1	1	3	5	24
Social Democratic Party of National Consensus	0	0	0	1	0
Patriotic Party	0	0	0	0	0
United Left Party	0	0	0	0	0
Non-Partist	105	103	98	92	60

Source: was composed on base of [42], [48]

Most opposition parties boycotted the election that was held in 2000, declaring them undemocratic. During the next campaign, though, they were involved in the process. As we can see, the only Parties that had consistent representation in House of representatives are Communist Party, Agrarian Party and labor and Justice Party. Liberal Democratic Party, which is said to be the most influential Party due to the highest number of members, has not had any representatives in the Parliament since 2004 election. Since 2000, the Belarusian Parliament ceased to create the party factions.

Table 3.2. Rating of Belarusian Political Parties, spring 2012

Name of the Party	%
Liberal Democratic Party	1,3
Belarusian Social Democratic Mass Party	1,0
Labor and Justice Party	0,9
United Civic Party	0,9
Communist Party	0,9
Conservative Christian Party	0,9
Green Party	0,7
Belarusian Popular Front	0,7
Social and Sports Party	0,7
Agrarian Party	0,6
Social Democratic Party of National Consensus	0,4
Patriotic Party	0,1
United Left Party	0,1
Against all	28,5
Undecided	61,9

Source: [35]

What is the reason for it?

There are a number of reasons, probably:

- 1) sufficient social base for the normal activities of the parties is not yet formed in the Belarusian society. The society does not have a structure for social groups to defend their interests;
- 2) electoral system does not increase the number of parties, strengthening their role in the political life of society. Since the system is not proportional, but majoritarian, the identity of the representative is more vital than his/her party membership;

- 3) high share of people have no interest in politics as a way to address their interests and needs. As sociological studies conducted by the Institute of Sociology of Belarus, only 4% of the population believes that active participation in the political process can help them solve the existing problems;
- 4) political parties are actually removed from the electoral process. The electoral law does not allow political parties to have a guaranteed membership in election commissions;
- 5) the current legislation in Belarus severely restricts use of political parties of extra-parliamentary means of political struggle, such, for example, as demonstrations, pickets and rallies in their activity;
- 6) the activists of political parties are often happen to be under pressure from government or administration of the enterprises where they are employed;
- 7) because of the weak material base and logistic connections, most political parties do not have their own media, while state and independent media, as a rule, try to distance themselves from political parties;
- 8) after seventy years of totalitarian political culture of the people of Belarus is at a low level. There is no strong democratic tradition in Belarus. Belarusian society is still in the stage of transformation, as stable social groups are still to be established, to be ready to defend their interests.

Actually, all of the above mentioned reasons are the consequences of the massive citizens' mistrust to legal acts and legislations, provided by the State. In case population had trust in those legislations (taking into account high human capital level of the Belarusians) it would have more active civic position, struggling for higher living standards, etc. As though any protests are useless people try to get from the condition as much as possible, which leads to existence of shadow sector in the economy and mass brain drain from the country.

The question that can be formulated at the end of this chapter is: what actually causes the descent of the income, lower level of standard of living and political silence of highly educated, healthy, people of working age?

Chapter 4. Economics of Belarus.

In this part existing state of the Belarusian economy will be analyzed, as well as tendency to cooperation with East, rather than West. Exactly – whether it brought any benefits to the citizens and state or not.

The results would be reviewed in the comparison to those states that have gone West (Poland, Lithuania) and whether their cooperation was more beneficial in terms of level of governance, R&D opportunities, development of small and medium enterprises, banking sector, etc.

4.1. Basic facts.

As part of the former Soviet Union, Belarus had a relatively well-developed industrial base and kept this industrial base by now - which is at the moment totally out of date, energy inefficient, and after the breakup of the Soviet Union depends on the subsidized of Russia and preferential access to Russian markets.

Belarus was one of the richer parts of the Soviet Union in the postwar years, but independence has brought stagnating economy. President Alexander Lukashenko was opposed to the privatization of state enterprises, so foreign investors largely stayed away for years.

The country also has a large agricultural base, which operates only with assistance of government support and basically is inefficient. The initial outburst of capitalist reforms in 1991-1994, including privatization of state enterprises, the establishment of institutions of private property happened, and the development of entrepreneurship, Belarus economic growth has slowed considerably since that time.

Belarus has seen few structural reform of the economy since 1995, the year when President A. Lukashenko launched a program of so-called "market socialism." Under this program, the administration re-imposed state control of large Soviet-era industrial enterprises. About 75% of the economy happened to operate under state control. As a result, foreign investors and small and medium-sized enterprises had difficult situation on the market. [15]

More than 80 percent of agricultural land is publicly owned, and most of the agricultural land is communally farmed. About 80% of the industry remains in state hands and foreign

investment is still hampered by a hostile business environment. Some banks that have been privatized after independence, were renationalized. State-owned banks account for three-quarters of the banking sector.

Economic output, which fell after the collapse of the Soviet Union for years, was revived in the middle of the 2000s, thanks to a rebound in oil prices. Most of the oil and natural gas import prices from Russia are significantly lower than the world market price. Starting with the end of 2006, Russia began the process of rolling back subsidies for oil and gas in Belarus. Russian energy tensions reached a peak in 2010, when Russia stopped all exports of subsidized oil to Belarus. [9] In December 2010, Belarus and Russia reached a deal to restart the reduced oil exports to Belarus. There is little new foreign investment in recent years. In 2011, financial crisis began because of higher wages that did not reflect increase in productivity. The crisis has increased the cost of Russian energy input and Belarusian ruble was overvalued, and eventually led to a nearly three-fold devaluation of the Belarusian ruble in 2011th.

According to the IMF, inflation at a rate of 65.9% hit Belarus in 2012. [38] This is actually the consequences from 2011, when the financial crisis peaked at 109% inflation because of the devaluation of the national currency. [41]

The financial crisis in the semi-public wage hikes designed to buy public support for the authoritarian regime: in 2010 the nominal wages of population rose significantly providing no production increase. This was a part of a political business cycle prior to elections at the end of that year. The tactic brought about disastrous results in 2011, the balance of payments crisis in developed and hyper inflation ran rampant.

GDP per capita though in Belarus continues to grow, in 2012 16.000\$ - 15.300\$ in 2011 - \$ 14,400 in 2010. The State has 82nd place in the world to have passed in Russia, Lithuania and Poland. Ukraine and Kazakhstan, although have weaker data. [34]

Belarus's economic fundamentals could worsen in the absence of structural reforms:

- high economic growth has been driven by investment, while total factor productivity (TFP) and labor contributed in a rather modest way. Since 2000, the average real wage growth exceeded productivity growth; [38]
- the economy has been hit by the substantial savings investment imbalance;
- international competitiveness eroded by a long spell overvalued exchange rate;

- the workforce is predicted to decline in the future, because of aging of population. This fact, for sure, would not increase the TFP in the middle and long term.

State aid to the economy, boosted by domestic demand, failed to create an increase in productivity. Belarus growth model has been based on the combination of low energy input and external financing, while productivity growth has been constantly slowing down. The labor market is dominated by state-owned enterprises (SOE) and the mobility of labor is very low – people stay at the same positions for years, including bureaucrats that would be mentioned further.

Overall, lots of scholars, while dealing with Belarusian statistics face one confusion – the figures and statistics provided do not always reflect the real situation, as in the case with low unemployment level, which never happened to be true. The same concerns GDP growth – it is not connected with intensive growth, but more with extensive. The only question here is – how long that would last?

The next characteristic part of the Belarusian economy is the Government budget, exactly speaking - spending. Its statistics, which is available on the web page of State Statistics Committee provides us with the information concerning its amount and the articles. The biggest amount of the spending is sent to the maintenance of the Government apparatus, while the share of this article has been constantly increasing (see Figure) since previous Presidential election in 2010. This fact can be easily interpreted as a part of political business cycle – prior to the elections more finance was invested into social care and transfers to attract more voters, while years after the elections do not present any interest for the cycle.

Table 4.1. Government Spending, Belarus, 2006-2013

Year	2006	2007	2008	2009	2010	2011	2012	1st quarter 2013
Government spending, mln.rubles	23821	28765	37240	50922	49201	52971	62489	12818
Salary of the bureaucrats, mln.rubles	5276	6511	7481	8626	9528	11528	15828	3733
Share of bureaucrat's apparatus maintenance in government spending	22.1 %	22.6 %	20.1 %	16.9 %	19.4 %	21.8 %	25.3 %	29.1%

Source: [34]

Noteworthy is the fact that in the recent years (2003-2012) the number of civil servants with the experience of more than 20 years has steadily increased. By the end of 2011 there were 9,390 persons with work experience of over 20 years in the bodies of state administration in Belarus. [52] It should be added that there are over 8.5 thousand civil servants who had experience between 15-19 years and came to the controls in the first half of the 90s of the last century. Thus, we can say with confidence: about 10,000 officials run the country since the days of the Soviet Union. Despite the declared de-bureaucratization of the state apparatus, the annual "growth" representatives is 150 or more people.

The ruling power has made recently some steps towards reducing this huge amount of financing an inefficient number of bureaus – in April 2013 a statement for media was made that 25% of the bureaucrats would leave their places and search for a job in another sectors. Most experts, though, agreed, that this measure was generally made for public and would not cause real firing of people from their places, causing huge unemployment. Furthermore, the main motive for this action was to save money to increase salaries of the remaining 75% of the officials. So, in the future, probably, there will be no cuts of spending on the salaries.

"Liberal Club"⁴ has estimated that due to the reduction of 25% of the officials will be able to save about \$ 100 million (Ministry of Finance gives similar figures: one trillion rubles, or \$

⁴ Web-page of Liberal Club // http://liberalclub.biz/?page_id=153

130 million). This money will be enough to raise the salary of 75% of the officials for 200-250 dollars.

To summarize, the measures taken to do not change any statistics in the government spending – the most part of taxes collected would go for the salaries of the apparatus, which is extensively large and does not meet any efficient criteria.

Several indicators point to the need of a serious change in the state. Reasons for public administration reform are as evident as, perhaps, never before in the history.

International governance ratings scores of Belarus remain to be very low as we may check in the next subchapter. Bureaucrats are becoming increasingly uninterested in state service as far as most part of them are interested in personal demands, not public. The state apparatus systemically fails to reach social and economic targets; a number of functions of government bodies often overlap and remain excessive. Finally, corruption is present.

According to the legislation, the state apparatus runs around 1500 functions. But as the Ministry of Economy got to know, in case we take a closer look at all these functions we would see that the real number exceeds 3800.

As an example here can be provided the central body that deals with controls services - the Committee of State Control. Worth mentioning is the fact that besides it, somewhat around 37 other institutions have the responsibility and right to apply those controlling functions. For the businesses this turns life and operation into a real nightmare. [30]

Moreover, international corruption research does not present data that can make Belarusians proud of their administration. For example, in 2012 the Corruption Perceptions Index of Transparency International ranked Belarus 123rd. [31] In 2011 the result was even worse – 143rd place. This statistics represent another good reason for the Belarusian authorities to seriously consider public administration reform.

Summing up, Belarusian system of public administration definitely finds itself in crisis at the moment. By measure of firing a quarter of civil servants, the government solves no major problem at all. Comprehensive economic reform has been knocking on the Belarusian door for the past decade.

4.2. Customs Union with Russia and Kazakhstan.

4.2.1. Basic facts and history.

As you may know, the Customs Union is an agreement between the states to abolish the customs duties and the boundaries between them, and the introduction of a common customs tariff for other states. The main declared purpose of the Customs Union is significant economic growth of the member states.

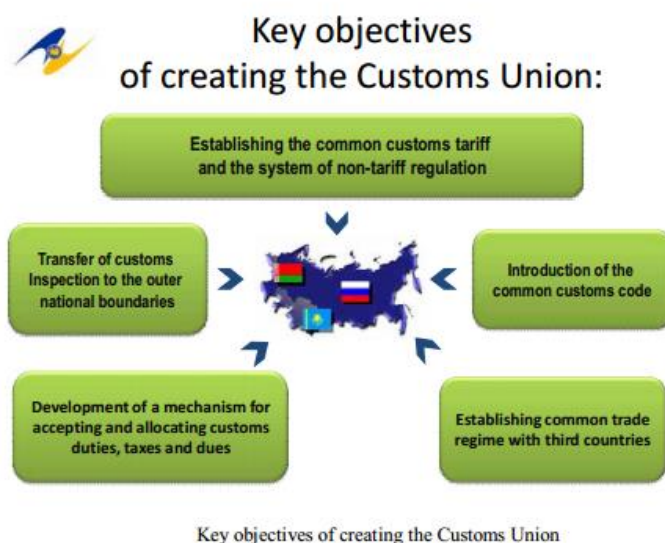


Figure 4.1. Key objectives of the creation of the Customs Union

Source: <http://www.carecprogram.org/uploads/events/2011/10th-CCC/RuBeKa-Customs-Union-Presentation-Notes.pdf>

History of the creation of the Customs Union is based on the agreement of January 6, 1995 and is a logical continuation of the consolidation status of relations between the states of CIS. By now more than 40 international treaties aimed at the completion of the formation of the legal base of the Customs Union were adopted. In addition, within the framework of the Customs Union, there are 13 international treaties adopted within the framework of the Eurasian Economic Community. [33] On November 2009 the Heads of States signed the Treaty on the Customs Code of the Customs Union in Minsk, which was expected to start functioning on 1 July 2010.

President of Kazakhstan Nursultan Nazarbayev, referring to the experts, said that the Customs Union would allow the three countries to increase GDP by 15% by 2015. It is assumed that due to the increase of the market, the establishment of common rules for

business, the participating countries will receive additional GDP growth of 1-2% per year. [32]

At first glance, there are more than enough reasons for the optimism. Since the formation of Customs union creates a common market of almost 180 million people with a combined GDP of \$ 2 trillion, and a turnover of \$ 900 billion of the Customs Union make up almost 83% of the economic potential of the former Soviet Union. Experts optimists expect:

- goods in local markets to be cheaper, better, and their range is more diverse;
- new opportunities for business development. Items can be moved freely on the territory of Russia, Kazakhstan, Belarus;
- energy to become cheaper;
- decrease of the business costs, such as transportation of goods within the Customs Union in mutual trade.

Nevertheless, there are a lot of arguments concerning establishment of the customs union and its functioning. A lot of experts do not see effects of this Union. Why do some large businesses and organizations perform against it?

- The suspicion that the Customs Union is favorable, primarily to Russia; [32]
- The accelerated establishment of the Customs Union, which has already led to serious problems in the field of foreign trade. Today, the participating countries are often involved in that count losses from hasty decisions. The Customs Union is quite declarative, because so far not agreed to a huge number of positions on customs duties;
- Unfair, in terms of the Kazakhs, Belarusians, the distribution of customs duties between the members of the union. Russia as a major exporter, expects most of the fees;
- An exception from the general rule of free movement of goods within the Customs Union has already been made. Apparently, in the context of the global crisis, Russia will not be able to fully open its domestic market for Belarusian agricultural products. As well as Belarus will not be able to open their market fully for Russian production: Belarusian experts believe that if Russian goods will freely appear on the Belarusian market, the domestic output would fall sharply for about 80%. [33] Ongoing measures to protect domestic markets have questioned the benefits of joining the Customs Union;

- Dissatisfaction of the oil companies. The fact that the customs union involves the unified export duty on crude oil means that Kazakhstan, which bypasses a long time without those fees, will have to work under the general rules, which means that oil companies will have reduced profits;
- Customs problem. There is a concern that low-quality Chinese goods smuggling in Russia will grow by a Kyrgyz-Kazakh border, since there is no adequate level of customs control there. For Belarusian products, such as light industry products and machinery industry, it will be difficult to compete with cheap Chinese imports;
- The difference of VAT within the CIS; [33]
- Problems anticipated by the Belarusian truckers. They are concerned about issues of cargo insurance, their support, financial support delivery. In the meantime, they have to count the losses and deal with traffic jams at customs;
- The rise in prices. For example, the Belarusians were worried that after the unification of customs duties, cars will rise in price by 30%, which really happened;
- The growth of cross-border organized crime, who will try to use the loopholes of the Customs Union for the import of contraband and money laundering.

The Customs Union began its operations in January 2010. In January 2012 this was followed by the establishment of the Russia–Belarus–Kazakhstan Common Economic Space (CES). The CES removed all barriers to the free movement of goods, services, labor and capital. In January 2012 Eurasian Economic Commission was also created. The establishment of these bodies is presented by steps towards forming an Eurasian Economic Union (EEU), similar to the European Union. The EEU is expected by the experts to be established in 2015.

4.2.2. How does the Customs Union function?

Belarus' accession to the customs union lowered import tariff barriers, but nontariff barriers remained significant. Belarus maintains import restrictions and quotas, licensing requirements, and non-transparent regulation. Investment flows are being still restricted by the extensive state control. Free movement of capital and labor within the Common Economic Area with Kazakhstan and Russia, launched on January, 1 2012, requires though investor-friendly environment, flexible product and labor markets in order to avoid capital flight and labor emigration.

In case we turn to the opinion of expert from the World Bank (Lúcio Vinhas de Souza Lucio de Souza), who published the initial estimates of the effect of the establishment of the Customs Union of the States, we will notice that nothing unexpected happened. As in many cases of the estimates of associations in the post Soviet area the opinion gives the lack of economic benefits from this kind of union.

The most attention of experts was drawn mainly by the agreement on the Customs Code. The fundamental economic sense of the agreement and subsequent evaluation of short-term effects is associated with the establishment of uniform rates of tariffs in trade with third countries (excluding CIS).

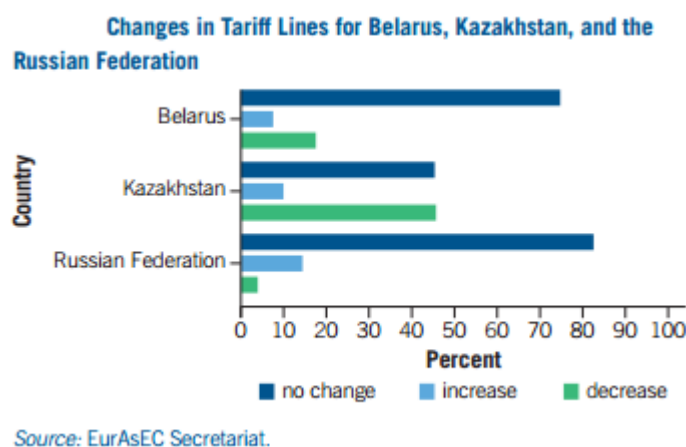


Figure 4.2. Changes in tariff lines.

Source: EurAsEC Secretariat

This applies mainly to align the three countries import tariffs on trade with third countries. Given that the average rates of import tariffs in trade with third countries of Belarus and Russia were higher than of Kazakhstan, a direct effect on the budgets of Russia and Belarus from the agreement could be either negative or zero (depending on the degree of harmonization of tariffs). [28]

Lucio de Souza examines in details the structure of trade and data on value added structure and input-output balance, in order to evaluate the effects of changes in the detailed commodity structure and taking into account the primary effects of changes in the value of fixed income sectors.

Since the change in duties is the essence of the quantitative nature of economic change, it is not surprising that the net effect of the countries has received the same: to Belarus, Russia - negative, for Kazakhstan - weakly positive, and in general the result for the countries of the Customs Union is negative.

In different scenarios (with the harmonization of the energy sector and without it) the effects are somewhat different, mostly in the losses in Russia and Belarus, which in the case of the harmonization of the energy sector are much higher (respectively 1% and 6%, against

0.4% and 3% in the scenario of partial harmonization of the energy sector). For Kazakhstan, in both scenarios, the effect does not exceed 0.4% of GDP.⁵

Experts also give an assessment of meaningful headings that have been changed. In particular, 7% of Belarusian tariffs were increased, among which the most significant groups are meats, automobiles, metals. Approximately 18% of tariffs fell, among them - clothes, cars and equipment and pharmaceuticals.

Sector-based effect Lucio de Souza relates to the migration of production in the most secure sectors (clothing, trucks, other transport equipment). The most acceptable from the point of view of calculations for this model variant is full harmonization of the energy sector, which allows Belarus and Russia to concentrate on other productive sectors and to reduce the effect of variations in the trade. Cumulative effects in this scenario for the two countries are close enough to the scenario in the absence of harmonization of the energy sector⁶ (the uncertainty is certainty equivalent).

In general, consumers may examine the negative effect of the increase in domestic prices on the territory of the Customs Union. The main losses are associated with higher tariffs on the clothing and cars. In the short term it will lead to an increase in commodity prices, and may adversely affect the growth. Moreover, in the context of a general decline in consumer activity and demand for durable goods in general, the effect of rising prices for these products play a smaller role than in the consumer boom. Challenges remain in demand for investment products.

However, there is another opinion in the community of experts that presented the point of view, very different from the world bank expert opinion Lucio de Souza. The total effect of the integration of the Customs Union, as measured by the additional GDP by 2015 will account \$ 400 billion, estimates the head of the Trade Policy Department of the Eurasian Economic Community, Vladimir Chushkin, citing the calculations of scientists of the Institute of Economic Forecasting. [33]

According to him, due to the integration factor Russia will receive an additional 16.8% from the current level of GDP, Belarus - 16.1%, Kazakhstan - 14.7%. "As a result, according to expert estimates, the removal of customs and other administrative barriers to mutual trade will provide the "15-20%" complex economic growth in 2015", - was quoted.

Since 2011 gradual decrease in the turnover of the CU is seen. Thus, the development of foreign trade with third countries since the beginning of 2012 is characterized by a gradual

⁵ See Supplement 3

decrease in the growth rate of its cost volumes. It should be noted that the contribution of the Republic of Belarus in total exports of the Customs Union increased compared to the same period of 2011 states from 4.5% to 5.3. [45]

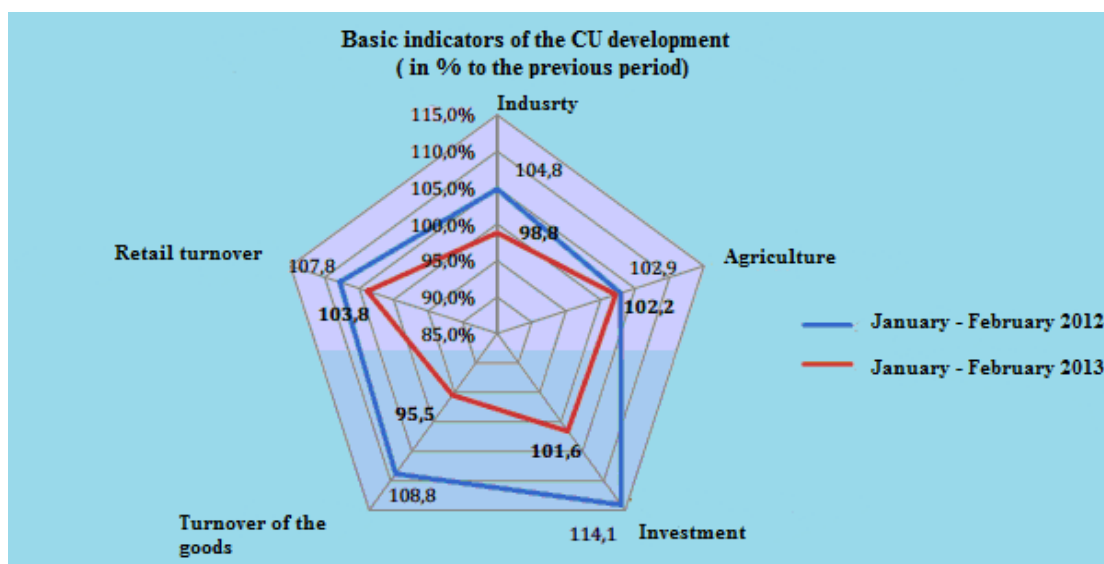


Figure 4.3. Basic Indicators of the CU development

Source: [45]

The functioning of the Customs Union for a short period though has already led to a sharp rise of shadow foreign trade. According to statistics of Kazakhstan's foreign trade turnover between Belarus and Kazakhstan amounted to 483 million, while in the statistics of Belarus - 647 million dollars, i.e. difference of \$ 164 million, or 34%. [57]

"The Customs Union is also far behind in terms of integration on trade in services, mutual direct investment and industrial cooperation. Who can name at least one innovative project that is implemented in the field of engineering vehicles, which is often cited as an argument in favor of TC? "- said Gaydutsky. [32]

Analysts also point to the fact that statistics show that the formation of the CU has not led to a significant growth of trade within the EEA. According to estimates from government sources circles of Kazakhstan, this is due to the low competitiveness of products, the lack of uniform rules of the market and the lack of freedom of movement of goods, services and capital.

It is noted that the main problem of turnover among members of the TC is a small amount of goods that the participants are willing to offer each other to implement. [43] In addition, the increased competition as a result of lower prices for imported goods hit some industry

markets, which creates the conditions for the replacement of some domestic producers from the market and hostile takeovers.

An initial estimation of the economic results of the CU functioning showed some of its weaknesses and limitations. Nevertheless, the results of different scenarios support the conclusion that, currently existing the CU probably would be a GDP-reducing framework whereas those trade-diversion effects definitely overwhelm any of the positive trade-creation effects. Generally speaking, GDP falls and a number of industries are being negatively affected by this arrangement and the external positions of the Customs Union members can worsen. This result compares poorly with the positive effect created from multilateral trade.

4.3. Comparison of economic development of Belarus to neighbor states.

In case we check the data of 2013 Index of economic Freedom, we will notice, that Belarus got 48 points (154th place out of 177), which refers to a group of repressed countries. The nearest neighbors of Belarus in the rating are such countries as Haiti, Lesotho, Bolivia, Argentina and Bolivia. The only two European states, that were included in this group were Belarus and Ukraine, which gained even less points – 46, 3(161 place out of 177). [26]

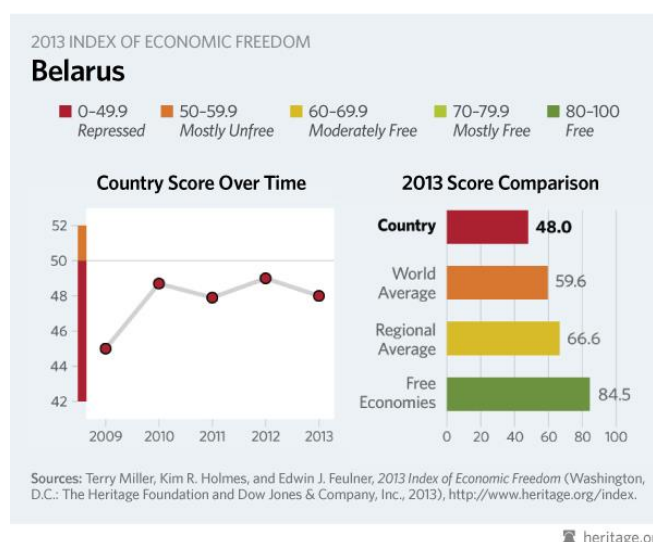


Figure 4.4. Index of Economic Freedom of Belarus, 2013

Source: www.heritage.org

The overall score is based on composition of several categories: business freedom, trade freedom, fiscal freedom, government spending, monetary freedom, investment freedom, fiscal freedom, property freedom, labor freedom, freedom of corruption. Belarus has the highest score in fiscal freedom and trade freedom, the least in financial freedom, property freedom and corruption.

Having poor protection of property rights and relatively high level of corruption, Belarus lacks the fundamentals for functioning markets to be built on. Dictatorial governance, time-consuming bureaucracy, ineffective judiciary leave entrepreneurs and small businesses no ways to achieve success.

Some stereotypes of the two countries Belarus and Ukraine are dominant in the analytical papers, political discussions and public opinion. These countries are often seen as quasi-nations, built from the ruins of the USSR, overshadowed by Russia. The last thing – they do really have good idea of what to do. They are “black holes”: for many analysts. Regular topics in political and academic discussions occur: will they chose East or West, would their choices be influenced somehow and why is the progress towards democracy so slow? [55] The truth is probably somewhere in the middle. Perhaps all those debates arose only because of the fact that those states were actually not going anywhere? And this happened because, from the very beginning of their recent independence, they, in essence, did not have an opportunity to move somewhere.

The current near-authoritarian governments of Ukraine and Belarus have put them on a similar path, making balance between Europe, Russia, the US and China. They might (in the case of Belarus, have already) become heavily economically dependent on Russia, and are apparently not to join the European Union in its current model. But public opinion in both countries is swinging in precisely the opposite direction. [55]

In case we turn back to the economic freedom index, based on the data illustrated in Supplement 4, we can conclude that Ukraine, Russia and Belarus have almost equal parameters in the overall index, including all of the above components. Belarus, though, during the early 00s was lagging behind its neighbors.

At that very Supplement 4 the comparison chart of Belarus – Lithuania – Poland is present. Lithuania and Poland are at the moment the members of the EU, accessed in 2004. Those two states are also the neighbored states to Belarus, as Ukraine and Russia. Even though, their index rate put them in the category Mostly free and Moderately free for Lithuania and Poland respectively.

For sure, whatever the communist or socialist experience of their neighbors (Poland), they never were a part of the Soviet Union and did not have Soviet social and political patterns as those we see in Ukraine and Belarus. Regardless of the Soviet experience of the Baltic states, those nations always were distinct enough in culture, language and society from the Russian nation that was dominant in the Soviet. This is one side of the coin, but apart from specialized texts, it is often not recognized that Belarus had some history prior to the creation of the

Soviet Union. For many years, along with Poland and Lithuania, Belarus and Ukraine were part of a mighty confederation, the Commonwealth. This country was said to be not only highly developed area, but, perhaps, the most influential confederation in Europe of that time – XV-XVI century. This link in sum with the Soviet Past gives us the opportunity to compare such states as Poland, Lithuania and Belarus – as they spent a number of centuries as a part of one state and were headed in one direction, which has dramatically changed over the last century.

The next indicator of the state's development used is the indicator of the development of the country that measures the following characteristics [54]:

- 1) economy;
- 2) entrepreneurship & Opportunity (E&O);
- 3) governance;
- 4) education;
- 5) health;
- 6) safety & security;
- 7) personal freedom;
- 8) social capital.

The complete set of data is available at the Supplement 5. Based on those indicators Belarus is one of the leaders in Education and Social capital – the part that has already been proven by the Population census data provided in the Chapter 3. Misleading indicator, though, is the level of governance, which puts Belarus in this measure in the group of 30 least successful states in the world and decreases the overall level of the development.

In case we compare Belarus to a number of states (see Supplement 5), we can conclude, that Belarus was not outperformed only by Ukraine and Russia, while Poland and Lithuania have better results in a set of variables: economy, governance, personal freedom, etc.

Basics of these indicators have deep roots in the politics, conducted by the Government. Economy is developing in case of proper institutional sphere, motivation of labor to increase productivity, proper ratio between productivity and wages, developed banking system, functioning market and mutually beneficial trade with other states. [19] If those basics were not established – it is difficult to get from labor higher productivity, and economic growth.

Last thing to mention here is that Belarus has made much less progress in market reforms than most European economies that were a part of the USSR or Soviet block some time ago. Belarus has performed poorly on large- and small-scale privatization and enterprise reform.

Little was done to harden SOEs' budget constraints; promote competition or strengthen corporate governance. Banking sector reform, trade liberalization and competition policies have been slowly improving.⁷

4.4. Conclusions

- Belarus has little ability to stimulate growth through increased investment in physical capital. Belarus' investment to GDP is one of the highest in comparison with peer countries. In recent years, investments have been modestly directed mainly on the growth of labor productivity. Future growth will rely more on productivity-enhancing structural reforms, rather than investments;
- Belarus has a significant potential to improve growth through structural reforms compared to peers. Comparators member of the Customs Union Russia-Belarus and Kazakhstan have outperformed the markets for goods and financial market liberalization. Landing on the reforms in these areas will be important for Belarus to remain competitive in the framework of the Customs Union;
- the impact of structural reforms on growth potential of Belarus production can be significant. The potential benefits for the growth of GDP could be higher if the product and financial market liberalization is complemented by other structural reforms, such as labor and privatization; [21]
- Belarus needs a multi-faceted structural reforms. Removal of price distortions, developing market-based incentives and competition are the priorities for an effective recovery factor proportions, improve the allocation of resources and changes in the sectoral structure of the economy in line with its comparative advantage;
- macroeconomic stability and disciplined macroeconomic policies, together with the exchange rate should be in line with economic fundamentals and promote balanced economic restructuring; [13]
- central apparatus does not function efficiently, as a lot of civil servants stay at the office for more than 20 years, their quantity is higher, than needed amount, and budget spending on the salaries is not balanced;
- review the role of government in the economy focusing on institution building and the rule of law;

⁷ See supplement 6

- high level of corruption is present – some reforms for increasing the social status of civil servants, high fines for corruption or detailed choice of personnel are needed.

Basing on all of the above mentioned negative trends in Belarusian economy the government should generally step towards economic restructuring including:

- 1) privatization;
- 2) the commodity market deregulation;
- 3) financial sector reform;
- 4) small and medium enterprises development. State banks should be privatized.

Economic restructuring though has to be balanced to avoid dislocation of the factors of production. Several factors are important for a balanced restructuring and achieving efficient allocation of resources, avoiding the period of under-utilization of production factors.

- First, the reforms are likely to be more successful if they are carried out in an integrated manner, they should be broad-based, avoiding market segmentation and discrimination. The reforms should start with strengthening product market competition.
- Secondly, a strong and well-functioning institutions and a well-defined and put into the property to help avoid under-utilization of resources.
- Third, enterprise restructuring is likely to be more successful in reduction of government

Delay of economic restructuring, including the reform of enterprises, further will weaken the foundations of the economy. With the reduction of external imbalances and fiscal and monetary policy to be disciplined, the current macroeconomic environment conducive to the real sector reform. Economically, the authorities can promote the liberalization of economic restructuring and development of the private sector, if it turns into a comprehensive reform strategy.

Chapter 5. Is Belarus ready to enter the EU?

Even though, Belarus does not have any project to apply for EU membership at least in the nearest couples of years, this part seems to be a challenging one. As far as Belarus went east with its cooperation with Russia and central Asian Kazakhstan, to become progressive and influential this cooperation needs fulfilling some criteria to operate efficiently to achieve the results that were shown by the EU cooperation. This part would analyze, whether Belarus is ready to join some democratic unions and apply its legislation on its policies.

Becoming a member of the EU presents a rather complicated procedure. This process never occurs suddenly. After a potential state meets the conditions for membership, it has to implement EU regulations and rules in all areas. To become an applicant it is necessary to satisfy criteria named “Conditions for membership” – in case the state does, it becomes eligible to apply. [58] These conditions are widely known as the “Copenhagen criteria”- a set of economic and political conditions formulated by the Heads of State and Government of the Member States at the meeting of the European Council, Copenhagen 1993.

“Membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union. Membership presupposes the candidate’s ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union.

The Union’s capacity to absorb new members, while maintaining the momentum of European integration, is also an important consideration in the general interest of both the Union and the candidate countries.”⁸

So, the basic fields to correspond to the criteria are:

1. The political criterion: the country is to have the rule of law, stable institutions providing and guaranteeing democracy, respect for human rights and protection of minorities.

1.1. Democracy. The candidate state should have democratic government that can provide all of the following to its citizens:

- participation in political decision-making processes at all levels of government;
- availability of free elections and the secrecy of the ballot;
- no obstacles from the state in the formation of political parties;

⁸ From the conclusions of the Presidency, Copenhagen 21-22 June 1993 – the Copenhagen criteria

- functioning of the independent trade union organizations;
- freedom of personal opinion;
- limitation of executive power and the laws of the independence of her trial.

1.2. Rule of law. The public agency shall act only within the framework of laws passed in the prescribed manner. This principle is necessary as protection against arbitrary power.

1.3. Human rights. These are: the right to life, the right to freedom from slavery, the right to freedom from torture, etc.

The most authoritative legal document on human rights is the Universal Declaration of Human Rights, but it does not have enough of an effective mechanism to ensure compliance with its provisions.

1.4. Respect and protection of minorities. Enabling maintenance of their culture, traditions, language, and fight against any form of discrimination.

2. The economic criterion: the country must have a functioning market economy and must be capable of withstanding the pressure of competition and market forces in the European Union.

3. The criterion presupposing the ability to incorporate the entire body of laws and regulations of the EU: the country must be able to assume all the obligations flowing from membership, including the aim of political, economic and monetary union. [58]

The European Union has various relationships with its closest neighbors around its southern and eastern borders through the politics that is called the European Neighborhood Policy.

Through this policy, the EU supports the political, economic and social reform processes of the neighbors, and tries to draw them closer to the EU, notably through gradual economic integration. This will allow the further extension of prosperity, security and stability of the zone.

The EU already has stable relations with the Belarusian neighbors and would like in the future to add Belarus to the list of its partners for mutual growth and prosperity.

The major reasons why it is impossible at the moment are:

1. Non-European national mentality of the majority of the population. Belarusians in the majority are either hostile or suspicious-neutral to the representatives of the European civilization. Only a small fraction (less than a quarter) is the real carrier of the European mentality. Even with the government's pro-European propaganda towards reunification with Europe, only the neutral part may temporarily take the side of the Europeans. But there is no pro-European core, which can be seen in other European countries, the mental rod should be formed by population itself, not by the authorities, i.e. from "above".

2. Strategic deadlock of the rulers of Belarus. The Belarusian leader (and all his followers) will never go to the accession to the European Union. Even the preparation for such a step would require full democratization and freedom of the media, and this will lead to criminal cases and proceedings against the government itself and, consequently, to the harsh sentences. Thus - in front of a strategic deadlock, the process goes – more and more opponents of the current power go to its side of despair and inability of opposition to operate.

3. The position of the Russian authorities. For Russia's powerful clans Belarus remains the only true ally in matters of foreign policy and the military field. As demonstrated by the political practice and history when opportunity to turn the events comes, Russia will head to the absorption of Belarus - it is clear to everyone, but so far the preferred tactic is reliable vassal. Currently, the independence of the Republic of Belarus, is almost hanging on conjectural desire of the Belarusian leader to suspend selling of the country in the absence of buyer. For most supporters of the independence of Belarus this is quite satisfactory a "guarantee" and they prefer not to think about the worst cases.

Economic reasons are not included here, because, as it was outlined in the previous chapter, Belarus for sure has some problems, but still it represents a promising developing market, which is attractive for investors. The main problem there is overwhelming majority of the public property and absence of the institutional base for development of the strong private sector. And this case goes back into lack of institutional knowledge and base, which is an existing government issue.

President Lukashenko has been the target of sharp international criticism for the last 10 years. There are some exact areas of definite criticism applied to his politics, i.e. control of the bureaucracy, the media and the use of state security apparatus. [29] The major point is weak human rights record seen by the Belarusian Government.

The Presidential elections in 2006 and 2010, Parliamentary elections in 2009 were heavily criticized by international observers, such as the Organization for Security and Cooperation in Europe (OSCE), for falling significantly short of international standards. The parliamentary election 2012 produced 109 winning candidates, all from pro-establishment parties. Monitors from the Organization for Security and Cooperation in Europe said many opposition figures had been blocked from taking part. [37]

Following the 2006 elections, a lot of nations, including the members of European Union and the USA, imposed sanctions on Belarus mostly concerning travel and financial restrictions, plus some restrictions on official dealings with the Belarusian Government.

These measures have increased after the 2010 Presidential elections, and the arrest of protestors and opposition candidates.

Some states have condemned the violent actions of the existing regime. Catherine Ashton, the European Union's foreign-policy chief, and Hillary Clinton, the US secretary of state, have made a public promise couple of times to review relations with Belarus. Germany summoned the Belarusian ambassador in Berlin to issue a warning that Lukashenka is isolating the country. [59]

Sanctions are the EU's "critical engagement" with the politics of President Alexander Lukashenko, to catalyze him to provide at least some reforms. EU has still not considered a broader trade embargo, making a preference to point at certain businesses and people.

"The Council reiterates its calls on the Belarusian authorities to stop the harassment of civil society, the political opposition and the independent media," the statement of the Council of the European Union, which represents the member states, after a meeting in Luxembourg of foreign ministers. [37]

"Since not all political prisoners were released and rehabilitated prisoners were released, the Council decided to extend the existing restrictive measures until 31 October 2013," the statement said, adding that the sanctions policy was open and under constant review.

After the introduction of the latest group of restrictive measures, which were decided on March 23, 2012 the European Union visa ban and asset freeze on about 32 companies and 243 individuals due to their connection to the Lukashenko's government. [37]

On the contrary, President of Belarus Alexander Lukashenko maintains friendly relations with Russia, the largest economic partner of Belarus, despite some tension because of the tough line on Russia energy trade and regional dominance.

Russian subsidies kept Lukashenko in power for many years. The recent deterioration in the relationship, partly due to the wrath of the Kremlin over the track Lukashenko to the West seems to have a line of hardened Russia. [9]

In order to formalize the growing isolation of Belarus from the rest of Europe, in 2010, the Parliament ratified the agreement to join the free trade zone with Russia and Kazakhstan. It was the latest step in a virtuoso performance, Mr. Lukashenko in the game with Russia against the West.

The EU's recent record of promoting democracy in former Soviet republics has been pitiful, not least in the Eastern Partnership programme, of which Belarus is a member. [59]

A Partnership and Cooperation Agreement between the EU and Belarus needs to be ratified to fully benefit from the European Neighborhood Policy. Such an agreement was actually

signed in 1996, but its ratification process had some problems and was suspended due to lack of respect for democracy and human rights in Belarus. When Belarus becomes a full participant in the neighborhood policy, and then after a while a full partner of the EU, it would be possible to help improve the living standards of the Belarusian people.

As for now, the EU and Belarus could work together to achieve the following improvements that will benefit the people of Belarus [60]:

- easier travelling of Belarusian citizens to the EU, because of the non-necessity of a visa;
- support of the Belarusian economy, stimulating the development of small and medium companies and preparation them for future opportunities in the European market. This action will create more jobs, and better opportunities for the younger generation. In addition, it can make Belarus more attractive to foreign investment;
- improved health and educational systems;
- increased cross-border cooperation, which allows closer cooperation on economic development, border management and protection of the environment;
- a high level of efficiency of the Belarusian state and local governments to ensure the population of better services;
- reform of the judicial system to ensure equal rights for all;
- improved economic opportunities and living conditions of Belarusians by modernization and development of transport and energy industries;
- improving the quality of the environment: support of the Chernobyl disaster, water and air quality.

What can the union with Belarus bring into economies and society? [60]

- contacts across borders and border crossings easier for local communities through cooperation with Belarus' neighbors;
- exchange of information and experience on how to meet the needs of the population;
- joining the Bologna process of Belarus. Belarusian students will have more opportunities for scholarships and academic growth;
- access of Belarusian goods and services of new markets that include about 480 million consumers, which will increase the trade conditions and economic environment;
- joining WTO for better opportunities of the domestic goods in the international markets.

However, this situation is still promising to have some changes in case the Belarusian government takes steps to make the country more democratic. So, what can actually Belarusian government do?

Unfortunately, at this point, the policy pursued by the authoritarian regime of Alexander Lukashenko prevents the EU to offer Belarus full participation in the European Neighborhood Policy. The fact is that the EU can not offer to deepen relations with a regime that denies its citizens basic human rights.

In order to break this isolation from the Western world and to cooperate with the international community, the Belarusian authorities can implement a number of measures, which are listed below:

- ensure democratic elections for the people, which will include an equal presentation of all the candidates in the media and possibility of independent viewers to participate in the process;
- allow people to express their opinions freely without fear of being prosecuted;
- obtain normal operation of non-governmental organizations, which form an important sector of the Belarusian institutions;
- release all political prisoners - people from democratic opposition parties, NGOs and citizens, that were arrested at peaceful demonstrations;
- investigate the cases of continuingly disappearing persons;
- establish an independent and impartial judicial system - where judges are not under political pressure and are not obliged to punish or prosecute citizens who peacefully express their views;
- respect the rights of national minorities in the country;
- allow workers freely join trade unions, and trade unions to protect their rights; [60]
- join other EU nation states to abolish the death penalty measures;
- use the links with the OSCE, the EU and other international organizations, to benefit the citizens.

To sum up, Belarus is definitely not ready to enter the EU, because of the political and social situation in the state. Institutions, society are not ready to enter a developed community as EU in the nearest future. Moreover, the ruling power does not make any steps to make the cooperation with the EU present factually, not only formally.

It is obvious, though, that Belarusian government is able to do steps to deepen the cooperation with the EU to satisfy the needs of the Belarusian citizens. Will they do it or not is upon them to decide.

Conclusions

Belarus, being a post Soviet state, currently lags behind almost all its neighbors in many spheres of life: economic, business, social, academic performance; standards of living, freedom index, etc. The only area the country is the absolute leader is education and human capital.

However, this advantage is not enough to overcome the stagnation is present in the Republic since the country's exit from the Soviet Union that occurred over the 20-years ago. Each state has its own reasons for inefficiently operating economy or absence of social culture. The easiest reason to find is inappropriate legislation or regime, that dominates in the state.

The Constitution of Belarus, as we have seen in the first chapter - it is not undemocratic and allows to build a decent and democratic state, and develop successfully, theoretically at least.

Of course, an amendment to the Constitution of 2006 (that one person can hold the office for more than two terms) played some role. It gave the opportunity for the current government to act in a way, which does not quite meet the definition of a democratic government. However, for example in the United States, for a long period of time there was no constitutional point concerning same person holding the office for a limited number of terms. But this unofficial rule was not broken for about 150 years. The first, who broke that rule was Franklin Delano Roosevelt, who was elected 4 times. The amendment to Constitution was introduced only on 27 February 1951 (Amendment №22).

Therefore, it can be argued that the main point is not the fact of presence or absence of some issues in the Constitution or legislation, but democratic values, grant of rights and freedoms to the population and trust into state ruling power and legislation. Belarus is a great example of how well-prepared Constitution does not provide the population with freedoms or their rights granted. The main reason here is social immaturity, of the governing apparatus, and of the population as a whole.

With a sufficiently high level of education, which is ahead of neighboring countries, Belarus could have achieved much better results, both in the economic and in social development.

"For democracy to work more attention needs to be paid to the education system. That lays the beginnings of a virtuous economic circle - but also the foundations for a virtuous political circle".⁹

⁹ Vaclav Havel citation : <http://www.vy-narod.ru/quotes.shtml>

Belarusian citizens have this level of education; however, in the absence of freedom in making decisions and lack of public choice, people have no right to determine the fate of their country. Third pillar of transition is worth mentioning here – social capital, presence of individuals' movements, groups, projecting their interest. There were no steps to create this base since the collapse of the USSR – and this part seems to be the most important at the moment. Social and economic education should be presented in every sphere of life, according to Mises. For people to know the ways of projecting their public interest, ways it can affect the existing situation, etc. At the moment this part presents a “black hole” in Belarusian society with only bureaucrats' budget-maximizing behavior and people's rational ignorance. Citizens just do not care, because they are not able to freely reflect their interest or demands, or they believe they are not able.

Education level is important, but what is the use of it, in case society does not know how to apply this knowledge and have little idea of what to do with it?

What concerns economic development, after the collapse of the Soviet Union Belarus has got a good base to build an economic system on that is still though being done with alternate success:

- 1) high share of corporations are still state-owned, which does not allow the development of a competitive environment;
- 2) the national currency is unstable and highly inflationary, therefore the population do not trust it and prefer keeping their savings in USD or Euro;
- 3) the country does not accept foreign investment or creates the climate for its entry;
- 4) the industry often does not concentrate on those areas in which there is a comparative advantage, but on completely different;
- 5) economic cooperation with Russia and Kazakhstan, which is very doubtful concerning its profit for the members;
- 6) the level of economic freedom is poor.

Still the economic problems of Belarus are only a consequence of the policy held in the state, as seen from the analysis of some of the countries of the former Soviet Union, which had fewer opportunities (Lithuania) and the worst could base, were capable by 2013 to achieve better results than Belarus did.

These and many other problems can be solved by changing part of its course by the current government via structural reforms, or a complete change of government: “the best

government is the one that rules the shorter”.¹⁰ Here, theory perfectly lines with practice – the longer bureaucrat stays at the office, the more they care about their influence and budget, which is nothing to do with the economic, political and social development of the state, or standard of living of the citizens.

Till these measures are not implemented, Belarus is not ready to enter some cooperation or Unions, like EU, WTO or other, because it seems impossible to line up the politics of the current government to the values of those organizations – Belarus would definitely be an odd element there. Moreover, at the moment Belarus is not institutionally ready to take part in any serious cooperation, leading to prosperous results.

¹⁰ **John O'Sullivan**, a British conservative political commentator // <http://all-aphorisms.ru/topic-pravitelymstvo.html>

Abstract

In this paper, I investigated the influence of the existing political power on the economical and social development of the state. The paper went deeper into positive and negative effects, state of economy within the years since the establishment of the Republic of Belarus, dominating social tendencies and the ways of improving the existing situation. The last part of the thesis presented analysis of whether Belarus is ready to enter European Union, as some of its members have already done (Poland, Lithuania), why/why not.

I assess that my own ideas contribute by approximately 30 % to the presented text.

Bibliography:

Printed sources:

- 1) K. Arrow. Collective choice and individual values / M: HSE, 2004. – 204pp.
- 2) Balmaceda, Margarita Mercedes; Kevin Rosner (2006). Belarus: Oil, Gas, Transit Pipelines and Russian Foreign Energy Policy. GMB Publishing Ltd. p. 4.
- 3) Benáček V.: Three Dimensions of Modern Social Governance: Markets, Hierarchies and Kinships. In: Democratic Governance in the CEECs. Rosenbaum A. and Nemec J. (edit.): Bratislava, NISPAcee Publ., 2006, pp. 407-428.
- 4) Blanchard, Olivier, 2004, “The Economic Future of Europe,” Journal of Economic Perspectives, Vol. 18 (Fall), pp. 3–26.
- 5) Buchanan J. M.: Ethics and Economic Progress. Norman, Oklahoma, University of Oklahoma Press, 1994.
- 6) Buchanan J. M.: The Demand and Supply of Public Goods. Chicago, Rand McNally, 1968.
- 7) Bukharin N., Preobrazhensky E.: The ABC of Communism. Penguin Books, Harmondsworth, 1969.
- 8) Dynamics of the quantity and structure of the population of Belarus, Shahotko L.P. Demographic security: comparison of Belarus and Moldova /Kishinev, 2010. pp. 39-66.
- 9) Gatovsky.A., and I.Kashinskaya.2006. “BelarusianTrade in Energy Goods.” Unpublished manuscript. IPM Research Center, Minsk, Belarus.
- 10) Greenwald B., Stiglitz J. (1986): Externalities in economies with imperfect information and incomplete markets. Quarterly J. of Economics, 101, no. 2, s. 229-264.
- 11) Habermas J.: The Theory of Communicative Action, vol. 2. Polity Press, Cambridge, 1987.
- 12) Hobza, A. and G. Mourre, 2010, “Quantifying the Potential Macroeconomic Effects of the Europe 2020 Strategy: Stylized Scenarios,” European Economy Economic Paper No. 424, (Brussels, European Commission).
- 13) IMF, 2008, “Structural Reforms and Economic Performance in Advanced and Developing Countries,” June 10, 2008.
- 14) Krugman P., Obstfeld M.: International Economics. Addison Wesley, Boston, 2003.
- 15) Mejstrik M. (edit.): The Privatization Process in East-Central Europe. New York, Kluwer Ac. Publ., 1997.

- 16) Niskanen W. A. Jr., Bureaucrats and politicians, Journal of Law and Economics, Dec 1975, pp.617-643.
- 17) Niskanen W. A. Jr., The peculiar Economics of bureaucracy, American Economic Review 58 (2), May 1968, pp. 293–305.
- 18) Nureev R.M. Theory of public choice. A course of lectures / M: HSE, 2005.–530pp.
- 19) P. Aghion and O. Blanchard, “On the Speed of Transition in Central Europe,” NBER Working Paper No.4736, May 1994, p.317.
- 20) R. Caballero and M. L. Hammour, “The “Fundamental Transformation” in Macroeconomics,” AEA Papers and Proceedings, Vol. 86, No. 2, p. 185.
- 21) Sato T.: How Extensive Has the Transition to Market Economy Been? Most, No. 1, 1995.
- 22) Stiglitz J.: Whither Socialism. MIT Press, Cambridge Mass., 1994.
- 23) Vanberg B «The order Theory» and the constitutional economy / economy Questions, 1995. №12. pp. 67-72.
- 24) Yakobson L. Economy of public sector: basics of the theory of public finance / M: the Science, 1995. – 276pp.

Internet Resources:

- 25) 2004 Referendum results forecast //
<http://web.archive.org/web/20100810185816/http://belaruselections.info/archive/2004/sociology/0039320/>.
- 26) 2013 Index of Economic freedom // <http://www.heritage.org/index/country/belarus>
- 27) Analytical bulletin «Elections of deputies of local Councils of deputies of Belarus 2010»
http://zapraudu.info/sites/default/files/imce_images/Analytical_bulletin_2010.
- 28) An Initial Estimation of the Economic Effects of the Creation of the EurAsEC Customs Union on Its Members, Lúcio Vinhas de Souza, Economic Premise , January 2011, Number 47//
<http://siteresources.worldbank.org/INTPREMNET/Resources/EP47.pdf>.
- 29) Australian Government: Department of foreign affairs and trade, Belarus. Country brief // http://www.dfat.gov.au/geo/belarus/belarus_brief.html.
- 30) Belarus Digest - Why Belarus Needs To Reform Its Bureaucracy //
<http://belarusdigest.com/story/why-belarus-needs-reform-its-bureaucracy-13458>.

- 31) Corruption perceptions Index 2012 // <http://cpi.transparency.org/cpi2012/results/>.
- 32) Customs union: everybody loses, except Russia // <http://charter97.org/ru/news/2013/3/26/67082/>.
- 33) Customs Union: reasons for and against, 13 march 2010 // http://profi-forex.org/country_traders/entry1003131704.html.
- 34) Data of the National Statistical Committee of the Republic of Belarus // <http://belstat.gov.by/homep/en/main.html>.
- 35) Data of the Special project of the Belarusian informational company//<http://belapan.com/archive/2012/12/14/409569/>.
- 36) Directive No 4 of 31 December 2010 "On the Development of Entrepreneurship Initiative and Stimulation of Business Activity in the Republic of Belarus" // <http://www.president.gov.by/en/press107177.html#doc>.
- 37) EU renews Belarus sanctions due to human rights concerns, 15 October 2012 // <http://www.reuters.com/article/2012/10/15/belarus-eu-sanctions-idUSL5E8LFON820121015>.
- 38) IMF Republic of Belarus: Selected Issues Prepared by Eliza Lis and Natalia Koliadina Approved by Chris Jarvis April 19, 2012 // <http://www.imf.org/external/pubs/ft/scr/2012/cr12114.pdf>.
- 39) International Human Development Indicators // <http://hdrstats.undp.org/en/countries/profiles/BLR.html>.
- 40) Laurent A.H. Carnis The economic theory of bureaucracy: insights from the Niskanen Model and the Misesian Approach, The Quarterly Journal of Austrian Economics, No.3 (2009): pp. 57–78 // http://mises.org/journals/qjae/pdf/qjae12_3_4.pdf.
- 41) National Bank has printed trillion rubles// <http://news.21.by/economics/2011/05/14/301588.html>.
- 42) Parliament as a part of political system // http://beldumka.belta.by/isfiles/000167_34721.pdf.
- 43) Prospects for the Development of RF's Policy in Central Asia// <http://www.davinci.org.ua/docs/CA121012.pdf>.
- 44) Romanchuk I. Presidential elections in Belarus of 2010. Campaign. Results. Consequences.//<http://finance.tut.by/opinions/romanchuk/397/>.
- 45) Statistic bulletin – trade of the Customs Union, January – September 2012 // http://www.tsouz.ru/db/stat/pbl/Documents/Ext_III_2012.pdf.
- 46) The 2011 Legatum Prosperity Index // <http://www.prosperity.com/default.aspx>.

- 47) The Belarus Constitution // <http://www.belarus.by/en/government/constitution>.
- 48) The composition of the parliament 2012 // http://www.belta.by/ru/all_news/politics/V-novyj-sostav-parlamenta-voshli-5-predstavitelej-politicheskix-partij_i_609609.html.
- 49) The Constitution of Belarus // <http://www.belarus.net/conendru.htm>.
- 50) The Constitutional order of the Republic of Belarus // <http://www.by.spininform.ru/stroi.html>.
- 51) The Lie Of Full Employment// <http://belarusdigest.com/story/lie-full-employment-7661>.
- 52) The Republican budget for 2011. The law of Belarus dated October, 15th, 2010 № 176//<http://www.newsby.org/by/2010/10/19/text16710.htm>.
- 53) The World Bank data// <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD/countries/BY-7E-XT?display=graph>.
- 54) The world factbook // <https://www.cia.gov/library/publications/the-world-factbook/fields/2116.html>.
- 55) Ukraine and Belarus: the dawn of change? Yegor Vasylyev, 16 October 2012 // <http://www.opendemocracy.net/od-russia/yegor-vasylyev/ukraine-and-belarus-dawn-of-change>.
- 56) Unemployment benefits are equal to 16,6\$ // http://naviny.by/rubrics/economic/2013/03/19/ic_news_113_413023/.
- 57) Y.A. Kozhankov Customs Union – First year outcomes and future development // <http://www.carecprogram.org/uploads/events/2011/10th-CCC/RuBeKa-Customs-Union-Presentation-Notes.pdf>.
- 58) What requirements must countries meet to become members of the EU? // http://www.eu-oplysningen.dk/euo_en/spsv/all/24/.
- 59) What should the EU do about Belarus? 27 December 2010, The economist // http://www.economist.com/blogs/easternapproaches/2010/12/belarus_election_0.
- 60) “What the European Union could bring to Belarus” // http://eeas.europa.eu/delegations/belarus/documents/eu_belarus/non_paper_1106.pdf.

Parties that are in favor of ruling Power:

- 1) **Social and Sports Party** – is supported by the President Alexander Lukashenko. Promotes economic development, people-centered, stable state through the improvement of social standards, combining the progressive forces of the Republic of Belarus to implement social programs that favor the growth of spiritual, cultural and economic potential of the Belarusian people, to draw public attention to the problems in the education of the younger generation, propagation of ideas of patriotism and healthy lifestyle.
- 2) **Liberal Democrat** – is for construction mixed economy through promoting the ideas of liberalism and liberal democracy, the recognition of multiparty pluralism of views, guarantees of civil rights and freedoms, non-violent action, the creation of favorable conditions for a decent life for every citizen of the Republic of Belarus, to ensure the free development of their personality in the economic, political and cultural fields.
- 3) **Agricultural** - political education and the education of citizens, the formation and development of their consciousness in the spirit of patriotism and nationhood; participation in decision-making and implementation of programs of economic and social development of the village, the preservation of spiritual principles and moral principles of the people's life, the development of a centuries-old building material and spiritual culture of the Belarusian village.
- 4) **Labor and Justice Party** – strives for society's economic well-being and social justice. Is the least influential party in Belarus.
- 5) **Patriotic Party** - supports the construction of a socially just society, supports the President in his efforts to implement the electoral program and urgent measures strengthening the economic and food security of the country, the protection of national interests of the dignity.
- 6) **Communist Party** - the orientation of society to the socialist path of development, leading to the construction of a society of social justice, based on the principles of collectivism, freedom and equality, in favor of democracy, strengthening of the Belarusian statehood.

Parties that are a part of opposition:

- 1) **The Belarusian Popular Front** was established in 1988 as a political party and a cultural movement, following the examples of Popular Front of Estonia, Popular Front of Latvia and the Lithuanian pro-democracy movement Sąjūdis. Membership was open to all Belarusian citizens as well as any democratic organization. The goals of the movement are democracy and independence through national rebirth and rebuilding after the dissolution of the Soviet Union.

The BPF “Revival” strives:

- for freedom, i.e. for building a democratic society of responsible citizens;
- for independent Belarus, which should be irreversible and well-secured
- for well-being, for economic liberation of people through guarantees of private ownership;
- for revival of Belarusian cultural traditions on the basis of European moral values.¹¹

- 2) **Green Party** - was founded on April 17, 1994 and registered on 3 June 1994. Since 2008, has the status of observer in the European Green Party. The party advocates for social justice, self-management and increased attention to environmental protection (in particular, against the construction of the Belarusian NPP). The declared purpose of the party: to create a healthy living environment for human, social and natural settings that provide maximum opportunities for its development, the development of spiritual, moral relationship to all, the formation and distribution of ecological thinking style on all spheres of life, including the political, peace among nations and the states.
- 3) **Social Democratic Party of National Consensus** - has a center-left social democratic ideology. The party program was adopted by the first Congress in March 1997. The declared purpose of the party - the creation of a socially oriented market economy on the basis of a synthesis of capitalism and socialism, social guarantees for medium-and low-income groups, ensuring a dignified existence for all population groups. The party is opposed to nationalism, religious and ideological intolerance.
- 4) **United Left Party** – was founded in 1991 as a result of the suspension of the CPB - Communist Party in the territory of the Republic of Belarus. According to the

¹¹ http://narodny.org/english/?page_id=2

statute, the purpose is to unite the party and political development of wage labor for the complete liberation from exploitation in all its forms and a classless society of social justice, and the task - preparing the necessary political, legal and economic conditions for the transformation of society.

- 5) **The United Civic Party** - Belarusian political party of liberal orientation. Is one of the biggest parties in the country. Was established in 1995, the union of the two parties - the United Democratic (ODPB, established in 1990) and Civil (established in 1994). The position of the party - the liberal-conservative core values - freedom, private property rights. Promotion of civil society and the rule of law on the basis of a free market, the priority of human rights, human values and diversity in all areas of social development, protection of the rights, freedoms and legitimate interests of citizens of Belarus within the framework of the current legislation, to facilitate the creation of conditions for improve the living standards of citizens through strong economic reforms, the country's integration into the world economic community.
- 6) **Belarusian Social Democratic Mass Party** – aims at creation of a humane, democratic society based on a mixed economy and a variety of party structures and the legal and social protection of labor rights, uphold the principles of individual freedom, social justice and solidarity.
- 7) **Conservative Christian Party** - is against President Alexander Lukashenko. Was formed after the split of one of the main opposition parties - the Belarusian Popular Front in the two in the summer of 1999. The party has a national-democratic ideology. The highest value recognized is the Belarusian people. The party advocates the expansion of the scope of the Belarusian language for the development of the national culture. The party advocates for increasing role of religion in society while preserving the freedom of conscience and religion. Is in favor of building a democratic parliamentary republic with a President being elected by the Parliament. Parliamentary elections in October 2004 were boycotted by the party.

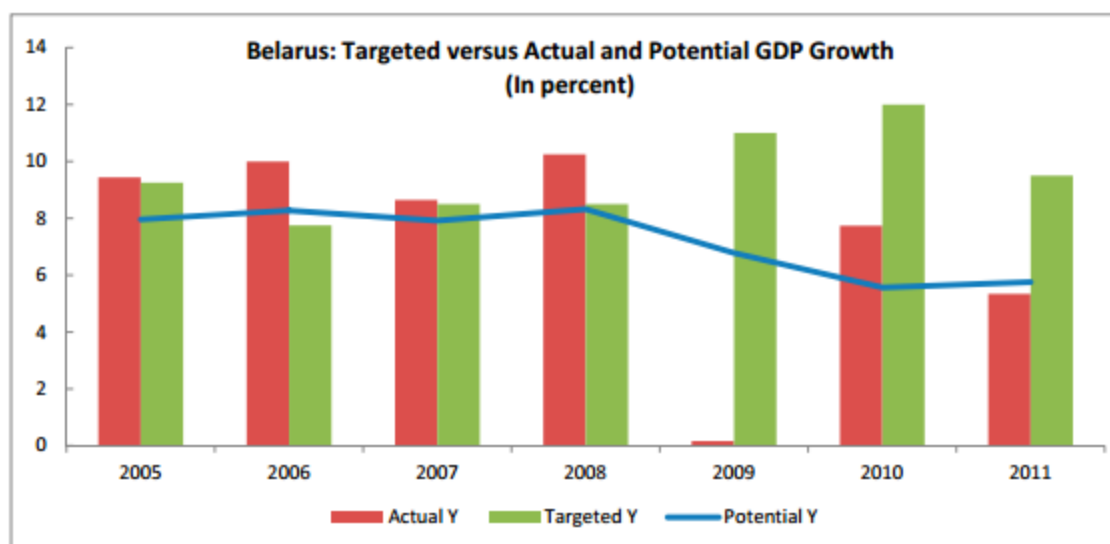


Figure 1. Belarusian GDP growth 2005-2011

Source: <http://www.imf.org/external/pubs/ft/scr/2012/cr12114.pdf>

Simulation Results of Full CU			
Sector	GDP CHANGES		
	Russian Federation	Belarus	Kazakhstan
	−0.66	−2.77	−0.54
Output changes per sector			
Petrol	−9.32	34.63	26.76
GasOil	−1.40	−39.31	−2.17
Financial	2.01	−2.62	−0.26
Truck	−1.20	−4.76	10.65
Auto	5.49	−3.83	−22.96
GrainsCrops	0.14	−0.47	−5.63
MeatLstk	0.57	0.26	0.01
Extraction	1.13	−7.53	−3.02
ProcFood	−1.54	−1.67	−2.51
TextWapp	2.16	−19.49	3.61
LightMnfc	3.11	−14.93	−3.44
HeavyMnfc	−1.70	−12.18	−11.26
Util_Cons	0.28	5.91	7.09
TransComm	0.95	3.93	2.94
Other services	−0.15	11.75	1.16

Figure 2. Potential Results of full Customs Union, GDP
Source: [28]

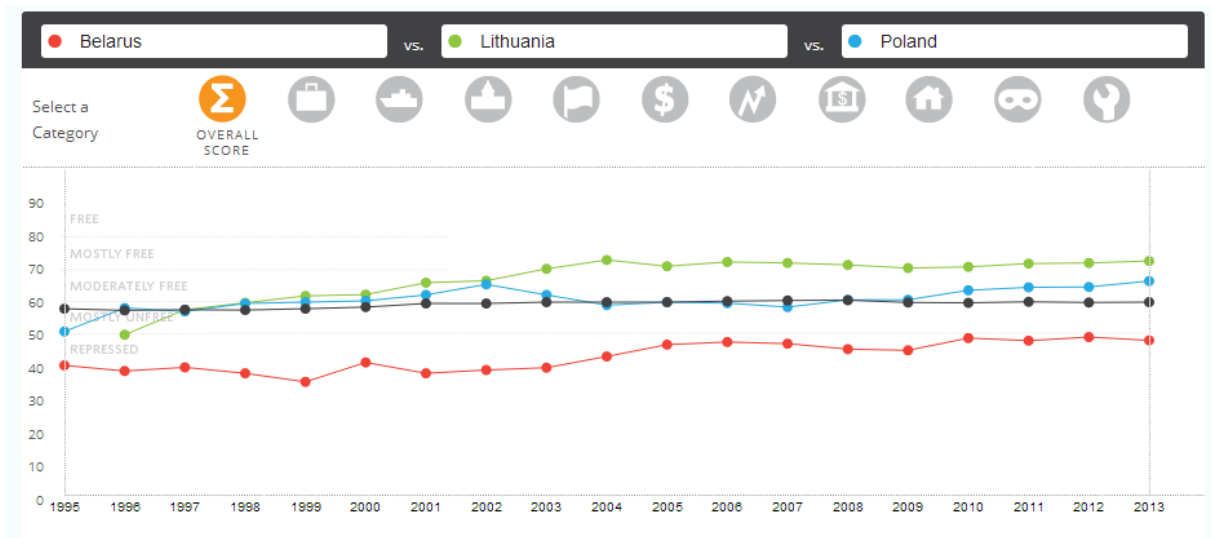


Figure 3. Comparison of freedom parameters of Belarus-Lithuania -Poland

Source: <http://www.heritage.org/index/visualize#>

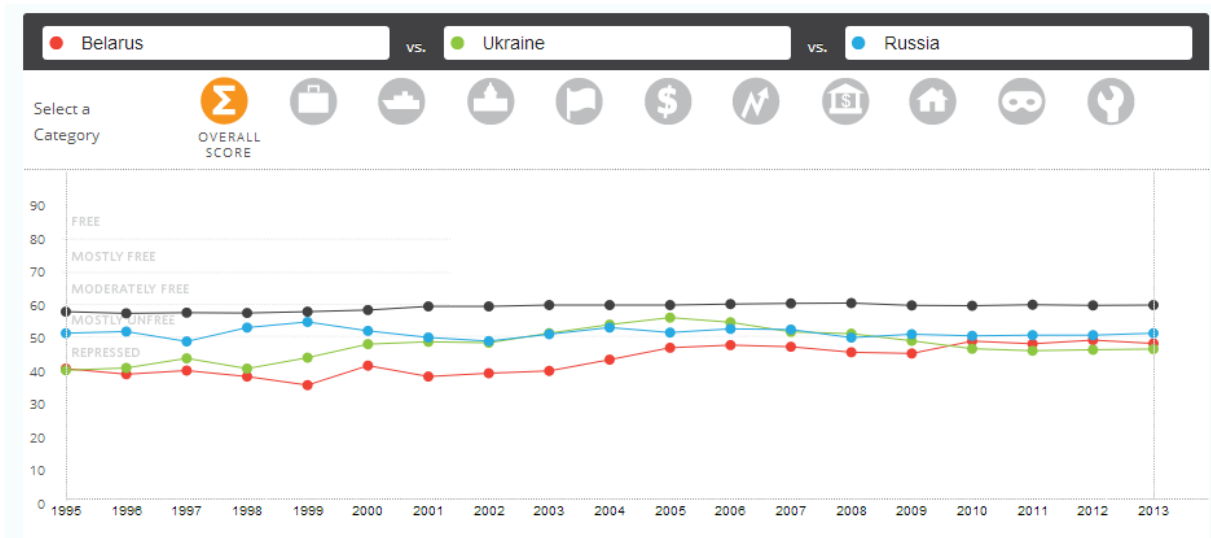


Figure 4. Comparison of freedom parameters of Belarus-Russia -Ukraine

Source: <http://www.heritage.org/index/visualize#>



Figure 5. Development Index of Belarus

Source: http://webapi.prosperity.com/download/pdf/BELARUS_112.pdf

Figure 6. Regional ranking of the development

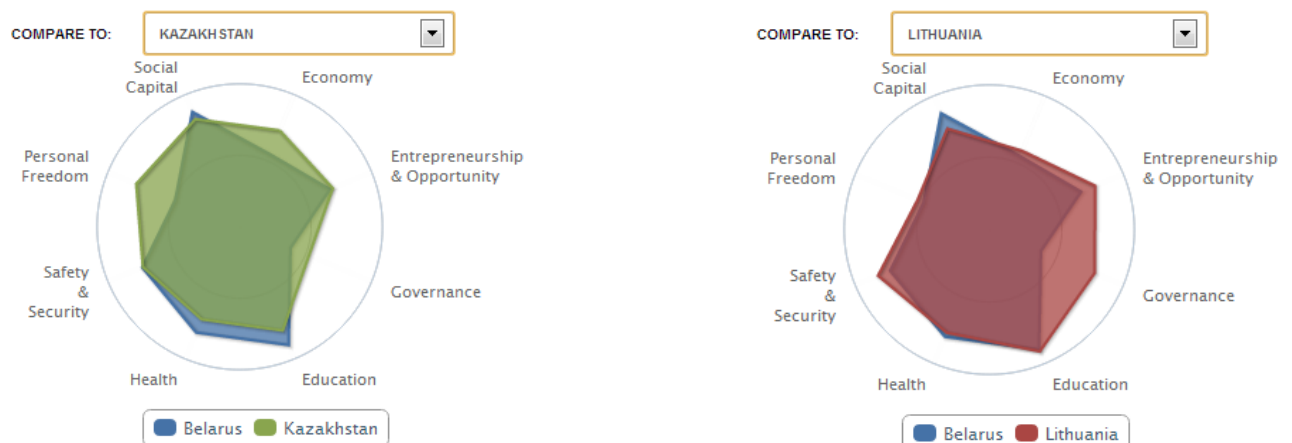
Source: http://webapi.prosperity.com/download/pdf/BELARUS_112.pdf

Figure 7. Comparison to Kazakhstan and Lithuania

Source : <http://www.prosperity.com/CountryProfile.aspx?id=112>

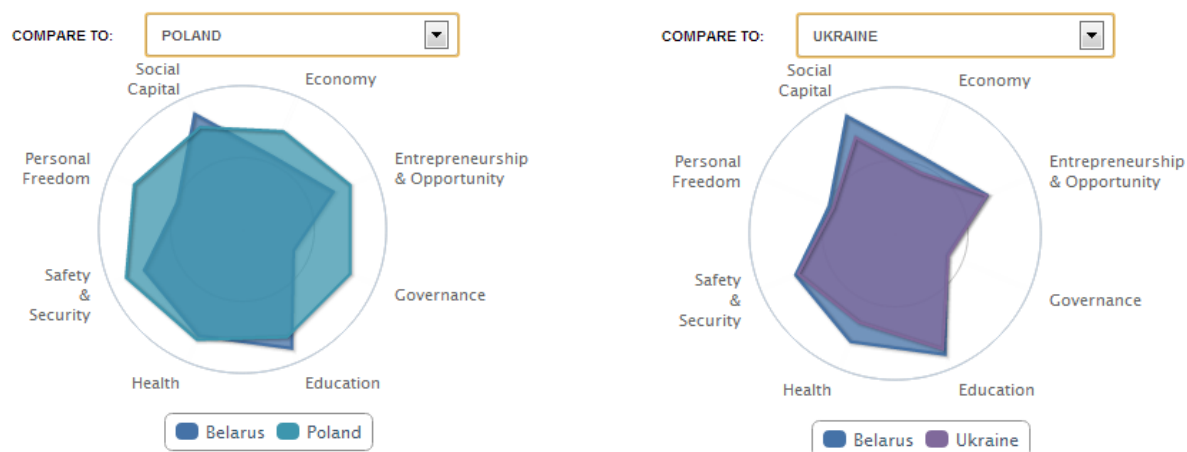


Figure 8. Comparison to Poland and Ukraine

Source : <http://www.prosperity.com/CountryProfile.aspx?id=112>

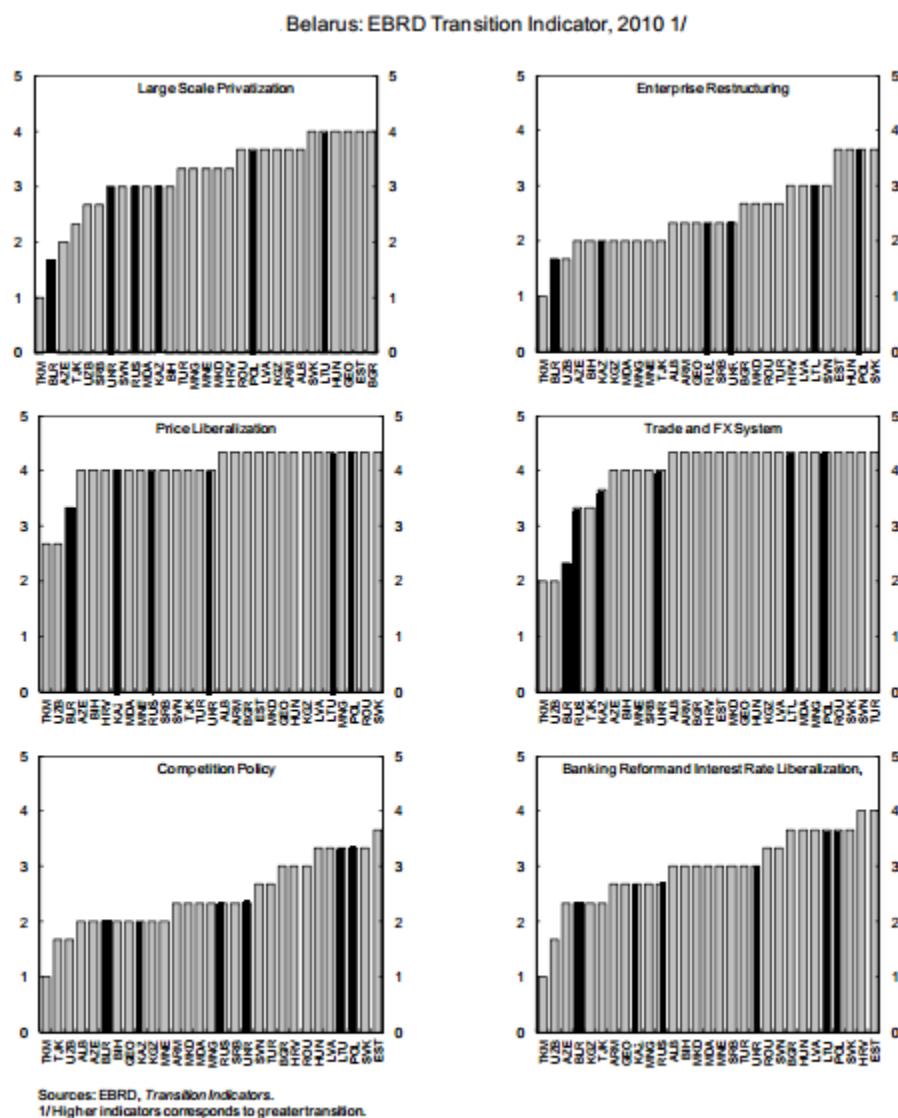


Figure 9. Transition indicators.

Source: <http://www.imf.org/external/pubs/ft/scr/2012/cr12114.pdf>

